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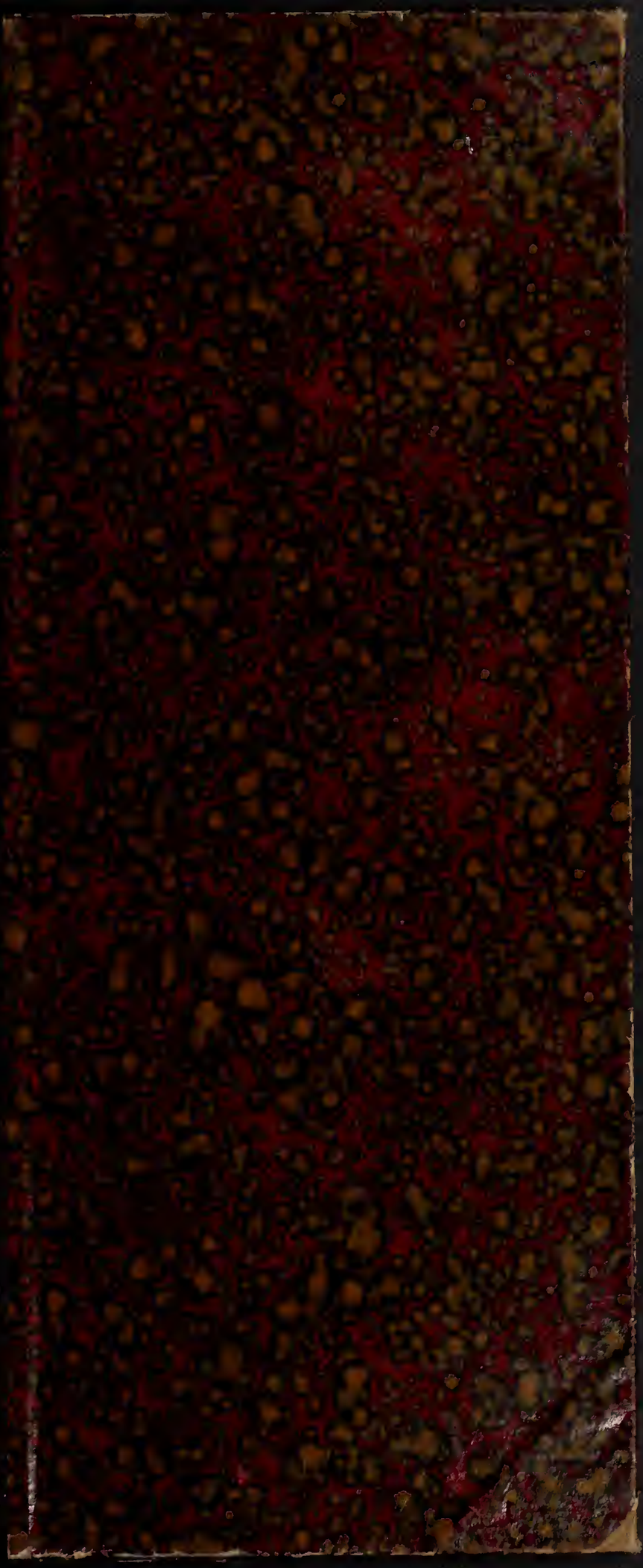

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THE MONETARY SITUATION IN THE FOUR PRINCIPAL SOUTH AMERICAN REPUBLICS

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BY

LEON GOLDMERSTEIN

THESIS

Submitted in Partial Fulfillment of the Requirements for the

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IN ECONOMICS

IN

THE GRADUATE SCHOOL

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PREFACE.

The present work is neither a study of the monetary situation in the four South American Republics - Oriental Uruguay, Brazil, Chile, and Argentine - considered as a statical problem, nor is it an historical investigation in the strict sense of the word. The writer rather has tried to show the evolution of ideas and the ~~the~~ gradual growth of the forces which cooperated to make the monetary situation in each country what it is to-day. With this purpose in view the writer endeavoured to bring together such facts of the political life of each country, its trade balances, budgetary history, rise and fall of the national debt, and its agricultural and commercial activities, as would enable one to understand the changes in the domain of currency circulation not as arbitrary measures of governments lacking the ~~elements~~ knowledge of the elements of financial science, but as phenomena having their causes in the economic and political life of the country, and theoretical views, sometimes - prejudices, of the time.

In carrying out this program the writer was limited by two things: the scope of the work, and the amount of material available. Without making the work many times larger than it is now, it was impossible to treat many problems as extensively as might have been desired. Thus, only passing mentions could be made of the balances of trade, and no attempt at all to construct for any of the countries a general balance, i.e. a balance including not only the movements of exports and imports of merchandise, but also movement of money in the form of capitals invested in the country, brought by immigrants, exported by travellers and

for the payment of foreign debts etc. The same consideration forced the writer to choose some starting point in the investigation of his subject in each country as near the present time as was compatible with his purpose. It was, however, considered desirable to have these starting points chosen according to some fundamental rule rather than arbitrarily, and after some consideration the following was thought to answer the purpose. It was noticed that the history of the South American Republics may be broadly divided in the case of each country into two periods: I) factional fight for power; 2) more or less regular development under a more or less stable government. The present work deals only with the second period, the first having at present a purely historical interest. For each country some great historical landmark was found, and the narrative led from it following, as far as convenient, the chronological order of events.

The problem of material available was the most serious one. The whole work is written on the basis of the materials in the library of the University of Illinois (mainly brought in 1910 from South America by Professor David Kinley) and in Professor Kinley's private library (materials from the last having been very kindly lent to the writer by their owner). This represents probably the richest and best assorted source of economic and financial information on the subject in the United States, but nevertheless it often happened that the writer had to adjust his plan of work to the material available simply because the authors of the books which he consulted did not pay any attention to the sides of the problem which interested him, and there was no direct information available. Thus, e.g. the writer was absolutely unable to find any information whatever on the question

how much actual capital was at work in the foreign banks in the South American countries; how much capital was imported by the immigrants; did the immigrants send any appreciable amounts of money to their native countries; how did the changes in the rate of exchange affect land values and the development of agriculture, etc. All these questions had to be left without consideration owing to lack of sufficient and reliable material.

As regards the bibliography, the writer has mentioned only materials actually used in the course of this work. No mention has been made of materials of a general character, historical or political, because such information forms the background rather than the body of the work. As regards the articles in various European periodicals, the writer has gone over the files, for the last fifteen years, of the most important of them in German, French, Italian, and Dutch (the English were omitted as being included in the bibliographical reviews of the International Bureau of the American Republics), only to find how little attention was paid to this subject by the European economic writers. As a matter of fact, nearly the only arricles actually used were the excellent reviews of the coffee trade in the Dutch "De Economist". Of the books quoted, especially extensive use was made of the works of Prof. Acevedo for the chapter on Uruguay, and of the very recent and exhaustive study

of Mr. Calogeras for that on Brazil.

There is one more subject which it will be well to mention here.

It is impossible to speak of the history of the currency in the South American Republics without mantioning cases of abuses, violation of public contracts etc. It would be, however, wrong to infer from this that the methods of South American finance were particularly dishonest. They were simply what the methods of finance of nearly all countries were at one or another period of their history, neither better, nor worse. Even such countries (~~which~~ as) are at present considered to be the very ideals of keeping to the spirit of the contracts in their dealings with the public, were not always so. A. de Tocqueville says of France of the eighteenth century (Old Regime and the Revolution, ch.X) "the history teems with instances of royal properties sold, then resumed as inanalienable; of violated contracts; vested rights trampled; public creditors sacrificed at every crisis; the public faith constantly broken". And Macaulay (History of England, vol.I. Bk.I, Ch.III) informs us that "from a period of immemorial antiquity it had been the practice of every English government to contract debts. What the revolution introduced was the practice of honestly paying them". We see thus that even the strongest - financially - countries passed through periods of financial wickedness in the formative stages of their economic history. They had, however, the advantage that when King Charles refused to pay his debts in London, Lewis the Fourteenth did the same thing in Paris, and so no comparisons injurious to the reputation of these monarchs could be drawn at that time. The

South American Republics were passing their formative stage when the principle of paying public debts had become firmly established on the world's market, and their failure to conform to it, however in accordance with general laws of history it may have been, could not help causing a good deal of unfavourable comment. We shall see, however, that the leading South American Republics have already passed this formative stage, or are near passing it, and that on the average the administration of their budgets is now on as good a basis as in most of the growing States of good financial standing.

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URUGUAY.

"A mutiny in the army, a revolutionary movement which terminated in a deeply subversive adjustment; a deficit which pitilessly grew from month to month; a military administration which took a lion's share in the distribution of the public funds; such were the factors which made their appearance at the very beginning of the organisation of our institutions, hampering the political and economic development of a country admirably endowed by nature, but cruelly persecuted by its own sons during the long period which we propose to review".

I could not think of a better introduction to the discussion of the monetary situation in Oriental Uruguay than this summary of the period of the Constituent Assembly in Prof. Acevedo's book (vol.I, p.I6).

The history of Oriental Uruguay represents a long list of revolutions, mutinies and dictatorships, with their usual result - fall of the credit of the country. In the case of Uruguay, according to the memorandum of the Council of Public Credit presented to the Government in I853, the credit of the country was in such a state that some of its obligations were discounted at an incredible reduction of 99½%, i.e. sold at one cent for two dollars nominal. One might expect, under these conditions, to have to record many fluctuations in the value of money, such as one is accustomed to find in the darker periods of European financial history. As it happens, the history of the monetary situation in Uruguay has some peculiarities seldom met with elsewhere.

When the Republic was formed, the monetary situation in the country was in a perfect chaos. There was no national coin as yet, and therefore foreign coins had to be used, but while silver and gold coins were practically of full value, the copper coins were far below their nominal values; this naturally made traders abroad anxious to import copper coins into the country, and people in the country inclined to effect their payments, particularly to the Government, in the cheap copper coins. The first monetary laws of Uruguay aimed to combat this evil. The law of March 1829 prohibited the importation of foreign copper coins into the country. A decree of February 6 of the same year provides that not more than one quarter of the total amount paid should be paid in copper to tax-offices in Montevideo. The law of July 11 of the same year establishes a gradual scale of reduction of the proportion of copper money to be accepted by the public offices, viz.: from half copper, and half gold and silver, in the first quarter of the year following the publication of the law, to only 2% after a year's time, the Government promising to pay in the same way. During the discussion of these laws and of some projects which were withdrawn later on, it was stated by the Government that the "promesas" (promissory banknotes) of the Bank of Buenos Aires were the only legal circulating form of money in the country, and that according to the laws then in force no other form of money could be adopted. The Government (the Cabinet of Don Lucas Obes) tried to obtain the consent of the Constituent Assembly for an issue of 150.000 pesos in banknotes, to be covered by the fund of copper money, but this project had to be withdrawn because from the day of

its announcement it became clear that the commercial world was not willing to accept these banknotes at their face value; the only course that remained open was to reduce the proportion of copper acceptable in payments to and from the Government, as was done in the law of July II, I829. Dr. Florencio Varela who has made a special study of the economic conditions of this period, states that Brazilian copper coins, both good and counterfeit, came to Montevideo in large quantities, and that large quantities of such coins were imported as contraband even into Brazil itself from the Spanish possessions, notwithstanding all the efforts of the Brazilian Government to keep them out. These circumstances forced the Uruguaian Government to adopt in I83I several new laws regulating the copper currency of the country. The law of January 26, I83I, deprived foreign coins (copper) of being a legal tender of payment, and authorised the executive power to organize a company of capitalists for the purpose of withdrawing from circulation the Buenos- Aires and Brazilian money. The capital of the company was to be I50.000 pesos, and it, and the interest on it, were to be paid out of a special duty on importation.

In the message of June 9, I83I, the Government informed the Permanent Commission on Monetary Affairs that, according to the information collected by the Company of Shareholders, there was a scarcity of small coins both in the capital and in the country, and that it would be possible to recoin and issue I50.000 pesos in small coins of two and four vintenes each, on the following basis: a peso being equal to eight reals, a real to 8 octavos, each coin of four vintenes was to represent two octavos or a quarter of a silver real. The Permanent Commission

justly considered that the project of the Government might open the door to flooding the country with bad money, and allowed the issue of only twenty thousand pesos as a sum amply sufficient for the requirements of the circulation. The same desire to shield, as far as possible, the country of bad or unreliable money prompted the passage of the law of December 31,1833, by which the importation of banknotes from Buenos -Aires into Uruguay was absolutely prohibited.

We see thus that the main problem of the Uruguaian nation up to the early thirties, as far as monetary problems were concerned, was to get rid of the copper currency, "the gnawing cancer which was by degrees eating up our effective wealth", according to the expression of the presidential message of February 20, I832..

For thirty years after the successful driving out of the worthless foreign copper coins, Uruguay practically had no money of its own. The law of June 23, I862, was destined to remedy - at least theoretically - this evil. It established as the national monetary units: the silver peso divided into I00 centesimos, and the gold doblon equal in value to ten silver pesos. It was decided to issue at the first opportunity the necessary quantity of various coins, but, until the time when such an opportunity would present itself, the law provided for a circulation of foreign gold and silver coins by legally fixing a a table of their values. The fact that Uruguay was unable to issue coins according to the above quoted law was after all of some advantage to the country as a whole by saving it from possible losses at the time of the demonetisation of silver.

The law fixed the gold and silver ratio at 15½, and made both metals equally good for payments. There is hardly any doubt that the little gold which Uruguay might at best be able to put on its market would be very speedily drawn away at the first sign of the fall of prices of silver, and the country would thereby have needlessly lost a few hundred thousand pesos. Happily, he who does not have cannot lose, and that was the situation of Uruguay at that time.

The same law granted to the banks permission to issue banknotes of a value not below a doblon, without prejudice to their rights of issuing banknotes of minor denominations granted to them by their respective charters. Next in importance to this law comes the law of March 23, 1865, which allowed the creation of banks for deposit and discount business, and for the issue of banknotes. As regards the last function of the banks, it was provided that all the banknotes issued by the banks be payable at sight to bearer in gold coin; that the normal minimum value of the banknotes should not be below ten pesos, but that the banks should have a right of issuing temporarily banknotes of lower denominations, payable in gold and to an amount not exceeding 20% of their effective circulation; the failure to pay a single banknote was to lead to the closure and liquidation of the bank, in which case the banknotes were to be paid first, in preference to all other creditors of the institution; the amount of banknotes issued could in no case exceed three times that of the effective capital.

This law is especially interesting in that it provides that the banknotes should be paid in gold exclusively, although offi-

cially, according to the law of I862, the country was bimetallistic. This system was later even officially rejected by the law of June 7, I876, which states that gold is the only foundattion of the monetary system, and that silver is legal tender only for sums not exceeding 4½ pesos in a total payment of a doblon, ten pesos in a payment not exceeding I000 pesos, and 20 pesos in a payment exceeding one thousand pesos. We shall discuss the other features of the law of I865 when we come to speak about the banking system of the country. The above proportions of payments for which silver was legal tender were slightly changed by the law of October I8, I892, which authorized the Government to coin 3.000.000 pesos in silver, and prohibited the circulation of foreign silver coins. Finally the law of December 6, I900, demonetized the copper, provided for the coinage of 500.000 pesos in nickel, and limited the use of it as a legal tender to one quarter of a peso.

Such is the situation as far as the purely monetary legislation can show it. When we turn to facts, we find that although Uruguay has a monometallic gold currency, the doblon never was coined, and most likely never will be unless for decorative purposes. The favourable balances of trade attract to the country considerable amounts of foreign money, and the circulation is always well supplied with gold coins, especially with British sovereigns, the best gold coins of the world. This fact not only saves the country from the expense of coinage, but provides for its commerce means of payment abroad in coins accepted everywhere at par, while the doblon of Uruguay would in the best case be accepted only at a discount for recoinage or re-exportation to Uruguay.

We pass noew to the consideration of the development of banking in Uruguay which will mainly deal with the history of banknote issues in that country. We mentioned before the law of 1865 which is the basis of the whole legislation regulating the banking business in the country. It provided that banks may issue notes to an amount not exceeding three times their effective capital. As a matter of fact, there were already at that time banks which had a right to issue notes granted to them by the terms of their concessions. Such were, e.g., the famous bank of Baron de Maua which was incorporated in 1857 by a special Act of Parliament with a capital of I.200.000 pesos and a right of issuing banknotes up to three times its capital. It was probably the success and high financial standing of these institutions which led the Uruguaaian Government in 1865 to adopt for private institutions this excessive ratio of banknotes to capital (three to one), a ratio which even the strongest - financially - nations do not dare to adopt for their State banks. This ratio was especially dangerous because it provided that up to 20% of the issue could be made in banknotes of small denominations. As might have been expected, the banknotes, in accordance with Gresham's Law, would first drive the good money out of circulation, and then at the first financial disturbance come in a rush to the banks to get exchanged for metallic money which could not be in the banks since the banknotes were three times their effective capital. The commerce of the country at that time was not extensive enough to keep a large amount of money in circulation, so that the Uruguaian banknotes did not have even the protection, that the U.S. greenback or Bank of England

note can rely so much upon. Under these circumstances even one to one would probably prove to be dangerous, while with three to one there was not merely danger, but certainty of failure. The crisis of 1868 made bankrupt nearly all the banks in the country, and their banknotes - practically worthless paper.

It may be interesting to know how the Uruguaian men of business considered the situation. In April 1868 Baron de Maúa published a memorandum in which he tried to show that his bank had on its books the major part of the credit transactions resulting from the financial and economic activities of the country, and that at this dangerous period the Government ought to have come to its help in order to save the country; that the bank suffered from a run on it due to the effects of the English crisis of 1866 (Overend and Gurney), a run which it could easily have stopped if the Government had paid to the bank its debt of 1.000.000 pesos, or, if it had no money to pay, if it had made the Maúa banknotes legal tender; that the general conditions were such that legitimate business was disorganised, there were too many banks, and excessive importations of products of consumption had led to a rapid diminution of the gold reserves of the country. Maúa recommended therefore that no bank be allowed to issue banknotes to an amount larger than its realised capital, or larger than twice its metallic reserves, and that it be expressly prohibited to count in the actual "cash on hand" for monetary purposes banknotes of other banks. "The major part of the banks do not possess gold to any serious extent at all, because that requires a sacrifice. All that they have in their treasuries are notes of other banks, - one of the great defects of the present banking system" (ib.).

We see thus that the crisis of I868 had two results: a large amount of inconvertible banknotes of the private banks, and a conviction that the existing banking system was unsound. The Government which, as we have seen, was more at fault in this case than anybody else, limited its activities to ap pointing a commission which immediately divided itself into two parties with diametrically opposite views. One party (Mssrs. Tomkinson, Diehl and Folle) maintained that "as long as the country is not firmly persuaded that there can be no greater evil for its trade than an inconvertible circulation, it will be inconvenient to allow any issue of banknotes". They based this sweeping view on the following considerations: the utility of banknotes consists nearly exclusively in a greater facility of transmission, and this slight advantage does not compensate for the risks of having an inconvertible currency; that, as the experience of the preceding years had shown, in several cases where they were given cours forcé, it wronged private interests and tended to favour the insolvent banks, while solid banking establishments only suffered by it, and indeed could not live at all; that if issue of banknotes, subject to become inconvertible at each moment, be suffered to continue, foreign capital will no longer flow to the country to support its industries.

The other view (Mssrs. Ramírez, Fernández, and Busto) was inspired by the principle of freedom for banking. According to the opinion of the last named gentlemen, the banknotes were sufficiently guaranteed by the prefered position which they had with regard to all the other creditors of the bank; the official control will only tend to weaken the more real and efficient control of the public; what is only necessary is: to in-

crease the responsibility of the bankers, simplify and shorten the process of liquidation of insolvent institutions, and create punishments which would keep bankers from committing frauds.

We see thus that while one part of the Commission recommended what the Germans call "das Kind mit dem Bade ausschuetten", the other part came to the conclusion that the banking as it was was about all right, if only the bankers could be kept in the narrow path of virtue. The measures proposed by the Commission were far better, however, than could be expected under such circumstances. The Commission recommended that no bank be allowed to open its doors until the whole capital has been realised in gold(during the crisis it was found out that several banks began their activities with only part of their capital actually paid in, and that, when the crisis began, the shareholders escaped their obligations of paying in the rest of the capital by transfering their shares to men who had no property worth speaking of). The next provision is rather peculiar: no bank should be allowed to loan any money to the Government without special permission from the Legislative Assembly, and even then to an amount not in excess of one quarter of its capital, while the Government should be distinctly prohibited from farming to a banking establishment the collection or distribution of taxes or rents from public lands. The explanation given by the Commission is worth quoting:"According to the common opinion of the economists, there is nothing more dangerous than an over-close connection (vinculacion) between the banks and the Government. This is especially applicable to this country which has not yet succeded in establishing its stability on a firm basis, and in

which the respect for the laws and the adherence to principles do not constitute an invincible protection against abuses and errors on the part of the State".

Besides these fundamental propositions, the Commission worked out several minor regulations for bank book-keeping, publication of balances, bank receiverships etc. We do not mention them in detail because none of them was accepted. As a matter of fact, while the Commission was discussing the situation, the scare of the crisis wore a little off, and the Ministry found out that too tight a lid on the abuses of the banks might prove, in the language of modern statesmanship, "not to be in accordance with the higher purposes of the government". Consequently, the Minister of Finance presented in I869 to the Legislative Assembly another project in which the fundamental principles of the law of I865 were preserved with the following additions and alterations in the main details: the banks were allowed to issue notes of only 20, 50, and I00 pesos, payable in gold; the Government was prohibited from forcing loans from the banks, or granting them concessions which were contrary to the laws, or tended to pervert the nature of an institution of credit; the issue of banknotes (payable in gold on demand) from ten centesimos to five pesos was to be a monopoly of the State; the control of the State to be limited to ascertaining that the bank has realised its capital, and to liquidating it after the bank has failed to pay its notes.

This project, with some modifications, passed the Chamber of Deputies, but was rejected by the Senate which found that some of its provisions were unconstitutional, while others were

nothing but a repetition of similar provisions in the law of 1865. This left the ground practically free to new abuses, but the end of the sixties and the beginning of the seventies was commercially a very good time, and the population did not feel them over much. It was, however, understood that something must be done with the banks, and in July 1873 a member of the Chamber of Deputies, Dr. Jose Pedro Ramírez, presented a project of a new banking law which contained the following main features: the incorporation of a bank could be effected only by an act of the legislature which was free to grant the concession or refuse to do so; a banking corporation must realise all its capital in gold before it can begin business; the management of the banks should be absolutely free from all control and interference of the government; the banks were to be obliged to "clear" each other's notes weekly, paying the difference in gold; the failure to pay a single note leads to bankruptcy; a special court of commerce to be established etc.

However radical this project appears to be, the Chamber of Deputies went far beyond it, and voted a law by which each inhabitant of the Republic was to be allowed to issue "so called banknotes" (billetes llamados de banco) written by hand, printed, or lithographed in any quantity, so long as they were convertible into gold, but that the public offices should receive payments in metallic money exclusively. The Senate substituted for it another project which simply abrogated the former limitations of the banks concerning the issue of banknotes of a nominal value under one doblon. As the financial committee stated in its report, there was no substantial difference between the two projects, since, according to the opinion of the Senate, the ex-

isting laws already allowed what the new law proposed to grant.

The project of the Senate was strongly supported by the bankers of Montevideo who wanted to obtain a right to issue small banknotes, but had no sympathy for a law which would allow everybody to do so. They insisted on the danger of such a course for the country's commerce, and pointed out that although a banknote is not money in its full sense, still it does money's work, drives real money out of circulation, and for all these reasons requires some reglamentation on the part of the Government.

The internal friction of the legislative machinery proved, however, to be too great in this case, and finally all these projects had to be dropped, and the fundamental law of 1865, which was already amply proved to be perfectly inadequate, remained in full force.

The way to abuses was thus left open, but remained for some time unused. The memory of the recent crisis was as yet too fresh in the minds of the people to allow the bankers to try something new. Besides, no "deal" on a largee scale could be carried out without the hearty support of the Government, and no government was strong enough to be counted upon for any length of time. Notwithstanding, however, the revolutions and political machinations in the capital, the people in the country, as far as they were let alone, were growing rácher and richer, and by the second half of the eighties clever people in Montevideo saw that the time for a really big deal had arrived: on May 24,1887 the organic law of the National Bank was passed according to which the capital of the Bank was to be ten million pesos (there is no more any talk of hundreds of thousands, as was the case

some twenty years before) in gold and silver, the proportion to be fixed by the Government; the bank obtained the right to issue banknotes of a nominal value exceeding ten pesos to an amount of twice its realised capital, and banknotes from ten pesos to ten centesimos to an amount not exceeding 40% of its capital, but was obliged to keep a metallic reserve of not less than 25% of its banknote issue. It obtained also many other privileges, e.g. freedom from taxation for its banknotes, shares etc., and an attempt was even made to give it a monopoly of banknote issue. All this, however, did not save it from a noisy failure within three years from the date of its foundation. For an outsider it is clear that such a bank could not help failing. An issue of twenty eight million pesos of banknotes in a small country like Uruguay where people were wise enough to know that a real English sovereign was at all times better than an Uruguaian promise to pay such a coin, would be by itself quite sufficient to ruin such a bank, but when we learn of its loaning, contrary to its charter, over four million pesos to the Government, and of its speculations of every kind (in which it was actively joined by the Government) we can only wonder that it existed as long as three years. We will not ~~be~~ recounted here in detail how the Government unsuccessfully tried, in I890, to reestablish the bank by providing it, under the guarantee of the Government, with a capital of 22.000.000 pesos, and by declaring that as long as its banknotes are paid in gold by the bank, the Government will accept no other notes in its offices. The crisis of I890 put a stop to the execution of this project as well as to that of the Mortgage Bank (the last being outside of the present discussion).

We arrive thus at the period of the Bank of the Republic which was established by the law of March 13, 1896. Its initial capital of five million pesos in gold was obtained by a State loan of a nominal value of 7.834.900 pesos, and the organic law of the Bank stated that its capital was to be ten million pesos actual, represented by 12.000.000 pesos nominal in two series of shares of 6.000.000 pesos each series (the second series has not yet been realised), the first series to be transferred to the State in payment for the capital provided and privileges granted; at least 40% of the capital were to be employed in establishing branch offices in various parts of the country; all the deposits in, and banknotes of, the Bank, were guaranteed by the State; the Bank was to have a right to issue, up to 50% of its realised capital, banknotes of a value under ten pesos, redeemable in gold or silver as the Bank might choose; as soon as the concessions granted to other banks with respect to the issue of banknotes expire, they were not to be renewed, and the Bank of the Republic was to enjoy finally a monopoly in this respect (at present the Italian Bank of Uruguay is the only one having, besides the Bank of the Republic, the right to issue banknotes, but its concession in this respect expires next year, and will not be renewed); all the legal deposits were to be made in this Bank exclusively, as well as all deposits made by private individuals to guarantee the State in the execution of contracts for public works; the Bank was to have a right to issue banknotes above ten pesos, redeemable in gold, up to twice its realised capital, keeping a gold cash reserve of not less than 40% of its circulating issue and deposits; the Bank was also to act as treasurer of the Government. There were several provisions in-

tended to keep the administration o the Bank from speculating with its funds and from abuses of credit; the Government was not allowed to borrow without special collateral more than one million pesos, as long as the capital did not exceed 5.000.000 pesos. As long as the second series of the shares remained not realised, the board of directors consisting of six members was to be named by the Executive, and approved by the Senate.

The amount of banknotes issued is now somewhat in excess of I6.000.000 pesos which is an amount about which two opinions are permissible. On one hand, about I5 pesos per inhabitant in a community of mainly an agricultural character, in addition to the large amount of gold coin in use, seems to be rather too much, since such a community does not require as many instruments of circulation as a manufacturing or trading community of the same size. On the other hand, the construction of new harbors (e.g. at Rosario) and railways from imported capital allows the country to keep a larger stock of money in circulation than would be the case even in a richer community working with its domestic capital exclusively. Anyhow, there is a proof that the Uruguaian currency is not too much, if it is at all, in excess of the actual requirements of the country. The financial difficulties of I907, though happening at a time when the Uruguaian finances were in a much weaker state than they are now, caused practically no difficulties as far as the circulation of banknotes was concerned, and the rise of the national credit of the Republic will certainly tend to strengthen also the value of the notes issued by its Bank of State, as long as it does not exceed reasonable limits.

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This historical account was necessary - among other things - to answer the question which naturally rises in connection with every currency having banknotes payable in gold, and that is: is the currency sound, is it on a firm basis or not?

Well, it is, and it is not. This may not seem quite clear at first sight, but the following is offered to explain it.

Every banknote currency, as far as its soundness is concerned, depends on two classes of causes: economic and monetary-politic, or, in other words, on the tendency of the wealth of the country to increase or decrease,, and on the tendency of the banknote circulation to keep within or without reasonable limits. If we apply these two standards of investigation to Uruguay, we see that as far as the production of wealth is concerned, the currency is certainly safe. The population of the country is now well over a million, nearly exclusively white, and belongs for the most part to those races of Southern Europe which seem to make the best settlers for South America. The climate of the country is such that, according to the opinion of Dr. Akers (A History of South America,p. 294), even the Uruguaian administration could not injure it. The distribution of landed property is not on a very healthy - economically - basis at present: about 15.000.000 hectars belong to about 10.000 persons, while the remaining 32.000 proprietors have among them less than 3.000.000 hectars, but there is a strong tendency now to break up the large properties into smaller parts. The banks help this tendency by freely giving loans for the purchase of small farms, and the Government is just now considering the realisation of a loan of 10.000.000 pesos for the same purpose. The chief industries in the country are agriculture,

cattle-raising, and packing, the most simple, steady, and, with the present tendency of prices, the most promising. The mineral wealth of the country is also very considerable, although with the present population it cannot yet be taken seriously into account. The country has 2.534 kms. (about I.700 miles) of rail-roads which are all guaranteed by the Government, but the fact that the Government does not have to pay a cent on the guarantees shows beyond doubt that there is plenty of life in the country. Of course, here again there is still plenty to do: in some parts of the country the bullock is as yet the standard method of communication, and some of the smaller lines are narrow-gauge, but there are ready projects for about 3.I74 kms. more, and about half of these projects have, as it appears, serious financial backing, among other places, on the extremely wealthy and altogether rather conservative French market-which is a good sign in itself.

The total of external commerce, as shown by the returns of the custom house, rose from thirty one million pesos in I877 to sixty eight millions in I906 which is certainly a good showing for a country of about one million inhabitants. We see, however, from the latest reports that the returns for I909 are eighty three million pesos, or a rise of about 22% in four year.

The indebtedness of the State is very large - I36 millions; still in I909 the country not only covered all its expenses and paid the interest on the debt, but had a surplus of about I5.600.000 pesos which brought the total surplus during President Williman's administration to about 6.000.000 pesos. One of the most important factors is, however, the large amount of

gold coins contained, and for the most part concealed, in the country. The writer has been unable as yet to find from the balances of the banks the amount of deposits (most of the foreign banks show their total, and not Uruguaian, deposits), but it is probably in the neibourhood of I00.000.000pesos; this does not yet, however, show the actual monetary wealth of the county since many Uruguaians are still, not without reason, afraid to entrust their money to banks. As a proof of this, the famous case of the Chilian "condores" may be quoted. In I896 it was discovered that there is in the country a large number of Chilian gold coins, called "condores", of light weight, and a law was passed providing that such coins should be acceptable in payments only if their weight does not fall below a certain standard. This practically threw them out of circulation, and allowed the bankers to buy them by weight and export as bullion. About 3.700.000 pesos in condores were exported during five weeks, without putting any strain on the circulation, which shows what a large amount of gold there is in the country. One might expect it, though, from the fact that the importation of money largely exceeds the exportation: in I906 I2.400.000 pesos were imported, and 7.470.000 exported. This state of affairs will probably continue as long as foreign capital is invested in the country, and, from the consideration of the general situation, there are many reasons to believe that the period of foreign investments in the country is only at the beginning.

All this tends to produce an impression that the Uruguaian currency is on a reasonably sound basis. Indeed, its history is perhaps the best proof of its soundness. If after all the abuses which partly were, and partly were not,described above,

the country required only ten years of comparative peace and honest administration to redeem all the sins of the past, and to create a ggod national credit and convertible banknotes, this shows that there is plenty of vitality in the Republic of Oriental Uruguay.

There is, however, another class of phenomena which deserves consideration, and makes the answer to the question as to the soundness of Uruguaian currency less certain than would appear from what was said above. As a matter of fact, the bank failures and fiat money experience during the whole period from 1868 to the end of the nineteenth century were in nearly every case due either to the Government "borrowing" the money from the banks, or, as in the case of the National Bank, involving it, and going with it, into disastrous speculations. Just now we see in Uruguay an efficient and honest administration, and prosperity in the country. But how long this will last, no one can tell. The fire of revolutions and mutinies has not yet been put out entirely, although it is to a certain extent true that the present Government with its ability to command considerable financial and military ressources is much better able to preserve the existing régime than was any of the unripe and moneyless dictatures of the nineteenth century.

Uruguay is a comparatively small country, and it is much easier to ruin its monetary system than to do so in a big country like United States. Here it would be necessary to issue something like a billion dollars in greenbacks before they would fall 10 ¢ in a dollar, while in Uruguay it would be enough for a revolutionary government to pass a law like that of 1873, in

virtue of which every inhabitant was to be allowed to write, print or lithograph banknotes at his heart's desire, and the whole fine structure of the Uruguaian currency would fall to the ground in less than one year. It must be, however, noticed that generally the currency is considered sound if it can last as long as the sovereignty of the country, or the form of government, which created it. If a departure from this rule has to be made in the case of Uruguay (and other South American currencies as well), it is only for the reason that the period of comparative rest in the country has been so short that there is as yet no perfect assurance of its further preservation. The country seems to be, however, rich and growing in productive forces, and, after all, in the long run, it is not the bankers and governments, but the farmers and other producers of actual wealth that make the banknote equivalent to gold.

BRAZIL.

The year 1897 was one of the blackest of a series of black years for the Brazilian finances. The revolution not only caused immense direct expenses to the Government, but had a most unfavourable influence on the general commercial situation of the country. The high prices of coffee in the early nineties lured the farmers of the country into giving up the production of cereals, and devoting their entire attention to coffee plantations. This also had a very disastrous effect on the general situation. Coffee plantations require considerable expenses during from five to six years before they begin to yield any income, and when the country in a rush turned to growing coffee, it not only decreased for the time being its yearly output of wealth, but had to import large and ever growing quantites of food from abroad (the importation of rice rose from 866,000 sacks in 1891 to 1,198,000 sacks in 1895; of maize from 858,000 sacks to 919,000 sacks during the same period). And when in 1897 Brazil was ready to put on the market such a mass of coffee that the local market was unable to supply sacks for it, prices, as could be easily expected with regard to a commodity of limited consumption, fell very rapidly (according to reports of the Companhia Centros Pastoris do Brazil the same coffee which was marketed at 19$284 for 15 kilos in 1893 could fetch only 12$663 in 1897, and went down to 9$962 in 1898). The railways, both belonging to the State and built by private companies with guaranteed bonds, were running at a deficit, and making the situation especially hard for the Government owing to the fact that most of the bonds were issued abroad, and involved therefore payment of interest and amortisation in gold. In Canudos an insurrection of a semi-

political, semi-religious character was still going on, and although its suppression was called in the official language of the time an expedition of military police, it proved to be very expensive. The financial administration was conducted neither very wisely, nor very economically, and as a result of all these causes by the end of the year 1897 the Government was absolutely unable to meet its obligations with regard to foreign holders of its securities. The banking system and currency were disorganised as much as the rest of the financial system, and on the whole "everything proved to be bad", as a contemporary wrote.

A consideration of the history of the monetary and banking situation up to that time will show why it could not be otherwise.

In the years 1890 and 1891 speculation in stocks reached its height. In 1891, 313 new companies were formed with a capital of over a billion dollars, and things reached such a stage that a price was paid to those who could suggest new names for companies. Naturally this could not last, and in 1892 failures began. The monetary situation at this time was as follows: the banknotes issued by the Treasury amounted to 176.6 mills., and the the issues of the banks gave 346.1 mills. more, bringing the total up to 513.7 mills. The banknotes issued by the State had no specific guarantee, while those issued by the banks were guaranteed by a deposit with the State of special bonds (apolices) to an amount of 81.2 mills., and gold to an amount of 95.8 mills., but out of this gold the Minister of Finances Ruy Barbosa spent 39.8 mills. to pay off the debt of the State of 1889, and L2600.000 were loaned by his two successors to several banks on their simple notes, with no tangible collateral, so that practically the only guarantee for this large issue of banknotes consisted

in a comparatively small amount of apolices which, moreover, under the existing conditions could hardly be realised upon.

By a special arrangement with some of the banks (Banco Emissor da Bahia, Banco de Credito Popolar, and Banco da Bahia) the Government was able not only to stop them from increasing their issues, to which they had a right, but to actually reduced the circulation by four millions:- a good step, but far too insignificant in so dangerous a situation, particularly owing to the fact that at the same time the foreign banks which had branches in Brazil were actively speculating with Brazilian banknotes on the bear side, and by the end of the year succeeded in bringing the $ of a nominal value of 27 pence English to only IO d.

Finally the situation reached such a point that the Government was afraid to risk even the delay which might be caused by the discussion of the required measures by the legislative Assembly, and promulgated the decree of December I7, I892 on its own responsibility. "The time to act has come", wrote the Minister in his report, " and a Government which does not find the courage to accept the high responsibilities which the circumstances throw upon it is not worthy to lead a nation: the necessity is a law in itself". The question which confronted the Government was how to reduce the excessive currency of the banks. It could not be done by depriving the banks of their rights to issue banknotes, because that would be equivalent to bankrupting the banks, and might lead to otherwise dangerous complications. What the decree of I892 did was to bring about, with the consent of their shareholders of course, a fusion of the two largest native banks in the country - the Banco da Republica dos Estados Unidos do Brasil and the Banco do Brasil - into one

Banco da Republica do Brazil. The new bank was to have a capital of I90 mills. (this capital was six months later reuced to I50,900 000), and all issues of its banknotes were henceforth to be guaranteed by special gold-apolices bearing 2½% interest, said interest to accrue as long as there was a difference between the value of the deposit and that of the banknotes issued (the apolices were to belong to the Bank, but to be kept at the Treasury). The Bank was to accept the responsibility for all the banknote issue, and, within a period of twelve months, to unify them in one issue. It was to become the depositor of the current account of the Treasury, had to open agencies in London and various European and American places, and was generally to act in lieu of a Bank of State. The Bank was granted the exclusive privilege of issuing banknotes, which were to be guaranteed, to 50% of their value, by a deposit in gold, and payable at sight and in gold. The banknotes of all the other banks were to be gradually withdrawn from the circulation. On November 23 of that year the issues of banknotes were distributed among the banks as follows (in millions of Brazilian $):

Banco da Republica.....	277.0
Banco de Credito Popolar...	29. 0
Banco União de São Paulo....	I0. 0
Banco Emissor de Pernambuco...	I5.5
Banco Emissor de Bahia...	9.5
Banco Emissor do Norte....	I.0
Banco da Bahia....	4.0
Total..	346.I

Out of this total the $4.000.000 of the Banco da Bahia were taken over by the Government in virtue of a previous agreement (mentioned above), so that the new bank had to take over from other banks only 69 mills. which would not be a very hard task if the bank were on a solvent foundation, were not overcapitalised, and sincerely intending to limit the banknote circulat-

ion to what was actually required by the volume of the country's business. Neither of these conditions was, however, in evidence. In fact the same decree which created the Banco da Republica do Brasil authorised it to isuue, for the support of the national industries which were likely to develop, I00.000.000 In bonus. These bonus were made to bearer, in amounts from 200$ to I.000$, were to be redeemed within 20 years from the date of issue, paid 4% interest, and were to be accepted at par by all the offices of the Government. Such bonus are nothing else but a hybrid form of currency. They are not banknotes, since, under the terms of their issue, they cannot be presented for exchange into gold by their holders; at the same time they cannot be considered in the same light as other State securities since they are accepted at par by the Government in payment of taxes. The fact that they bear an interest makes their value vary somewhat from one end of the semester to the other, and, in general, if they differ from banknotes as far as overcrowding the circulation is concerned, the difference is not in favour of the bonus.

Still less favourable was the situation as regards the solvency and solidity of the bank itself. Without going here into detaills (for which see Calogeras, pp. 257-265), it may be stated that at the time of the combination of the two banks their real capitals did not exceed 26.000.000$ which was very far from the nominal capital of I56 mills. with which the Bank was supposed to start. It was not, in fact, a watered stock: it was pure water with a block of stock floating here and there, and, as if to make the situation still worse, the law allowed the Bank to accept in payment of debts at par its own shares which were at that time quoted on the market at about 20% of

their nominal value. With all these drawbacks it might be, however, possible to place the bank on a solid financial foundation by a conservative management of its business and extreme economy in expenses. As a matter of fact, mainly for speculative purposes, no such things were even attempted. The large Brazilian banks used to pay dividends of 6% per annum, and the Banco da Republica do Brasil cotinued to do the same. But 6% on its nominal capital of I56.000.000$ meant something like 35% on its actual working capital of 26.000 contos, and that was of course a rate of dividend which no ordinary banking business could yield. The dividends were therefore simply taken out of the working capital of the bank, a condition which would alone be fully sufficient to wreck an institution of credit.

The decree of December I7, I892, as we have seen, was not a measure calculated to place the banking business of the country on a solid foundation, and the events of the period nearly immediately following it were of such a character that even the little good that was in the proposed scheme had no chance to be of any use.

The political situation in the country, from the coup d'État of November 3, I89I, was never in a state of stable equilibrium, and became worse and worse as time went on. The South of the country, as well as the Navy, had each many grievances of its own, and, by September I893, both were in an open revolt which threatened the existence of the Government as well as the unity of the country. Intra armis silent leges, and the Government made extensive use of this rule, especially in monetary matters. As we have seen above, the Government undertook, in accordance with the decree of Decenber I7, to redeem I00.000

contos in banknotes by using for this purpose the deposits of former banks. In the first half of 1893 5.527 contos were redeemed, but when the troubles began, the Government not only turned the rest of the deposits (about 29.000 contos) to the war-fund, but issued for the same purpose 83.000 contos more in paper-money. This led of course to a rapid fall in the rate of exchange of paper-money, the average of which in August 1893 was 12 1/6 d., and came down to 10 3/16 d. in December 1893, an to 9¼d. in June 1894.

It was not, however, the monetary politics of the Government alone which brought down the rate of exchange so rapidly. The mutiny of the Navy practically put the port of Rio out of business. The whole commercial machinery of the country stopped, "one had nothing better to do than to wait for better days", as a Brazilian writer says, and when the better days, or at least the end of the mutiny, came, the country was in every respect covered by ruins. The naval defense was desorganised, most of the important commercial relations broken, the people in a state of torpor, three provinces (Rio Grande, Santa Catarina, and Paraná) in insurrection, and the general situation such that no legitimate business of any importance could be thought of,, but there were plenty of opportunities for commercial adventures on a pseudo-patriotic basis.

When the Government of Mr. Barros, with Mr. Rodrigues Alves as Minister of Finance, undertook in the middle of November 1893 to bring the State back into the regular channels, Brazil had, with its financial agents in London, barely enough to pay its expenses until the end of the year, and even that was made possible only by obtaining a delay in the payment of L300.000, due

in the beginning of December, on the two cruisers ordered by the preceding Government on the last day of its existence. Meanwhile the expenses were very heavy, and could not well be cut down at once. There were expensive celebrations in honour of the Commission from Uruguay which came to take part in the delivery of medals for the Paraguay war; the revolt in Rio Grande cost enormous sums; the payment of the apolices approached, and the settlement of the claims in connection with the civil war could not be delayed much longer. There were still other large payments to be made. In 1893 the Treasury of the State bought the loan issued by the Companhia Estrada de Ferro Oeste de Minas. The money was spent since then, but the stipulated payments had to be made to the Company for the construction of its lines. The banks also insisted on being paid the damages caused to them by the withdrawal of their right to isuue banknotes. The State of São Paulo claimed the 5.000 contos of taxes which the Union had temporarily levied, and the railroads wanted to be paid for the transportation of the troops to Rio Grande.

In general, the new Government was rather favourably received both by the commercial classes at home, and the bankers in London, but the state of affairs in the country was as yet far too unsettled to make possible a loan large enough to place the finances of Brazil on a permanent basis. The general feeling was that the public would not take it, and the only thing to do was to issue short-term notes for an amount sufficient to satisfy the most pressing needs. Such notes were issued: at home in December 1894 - 66.000 contos, at 4% interest, payable in six months, and in January 1895 - 500 contos at 4% payable in four months, and 1.000 contos payable in three months. Abroad

drafts were issued for L 2.000.000, at 97%, and a deduction of ¾% for commissions and stamp duty, payable in nine, twelve, and fifteen months.

Mention was made above of commercial adventures. Speculation on the price of gold was the most prominent and also the most dangerous of them, but could not be stopped at once owing to the fact that the whole situation, financial and political, was unusually favourable to its development. The banknote circulation at the end of 1894 amounted to 712.358 contos (including the 83.000 contos issued by the Government during the revolution, and the 75.000 contos loaned to the banks), and there were 80.000 in bonus. On the other hand, to cover this large issue of instruments of payment there remained in th e Treasury practically nothing of the ninety three odd millions of the gold reserve, and less than 100.000 contos in unsalable securities. There was therefore plenty of reasons to think that the Brazilian banknote was worth just as much as one was inclined to pay for it, and hardly more. With a good organization of the banks and stock-exchanges, that might not have led to any particular difficulties; but unfortunately for the country the speculative market was at that time quite unadequately organised: there were no definite and strictly enforced laws regulating the profession of brokers, and any promoter of get-rich-quick schemes of 1889-1891 whom the subsequent political events saved from his deserved place in jail could, and often did, engage in the the business of brokerage in securities and funds. The method of speculation was extremely simple: one bought or sold drafts on foreign markets, in the hope of getting a "covering" when the exports arrived in foreign ports, or of paying the diffe-

rence in the other case, and when in the end of I894 there occured a hitch in the exports of coffee, and the exporting business was generally slow, the speculators tried to obtain a permission to draw against the none-too-plentiful ressources of the Treasury in London. When the Minister of Finances refused to sanction this plan, he was bitterly accused of lack of patriotism and narrowmindedness. All this tended to make the outlook rather gloomy, but in reality things were not as bad as they ~~might have~~ appeared at first sight, and in order to understand the situation as it really was, one must not lose sight of the most important fact, viz. the size of the country and the vastness of its natural ressources. While people fought in Rio-Grande, and while the Navy was busy burning the port of Rio, the fazendeiros in the interior continued to work in their slow way. As the Government pointed out in its report for I894, the landowners became poorer owing to their speculations and mortgages on the lands, but the production of the lands was increasing, and the following table may show that the curve representing the development of the trade has a very different curvature from that of the budgets or monetary circulation:

Year	Budget	Balance of trade	banknotes in circulation	Average rate of exchange.
I890	55.0	-53.I	299.0	22 9/I6
I89I	50.2	95.I	5I3.7	I4 29/32
I892	-2I.0	50.3	56I.2	I2 I/32
I893	I5.0	277.4	63I.8	II I9/32
I894	- I02.4	259.5	7I2.3	I0 3/32

The period from the beginning of I895 to June I898 (time of the adoption of the Funding Scheme) may be properly considered

to be a period of the liquidation of the economic and political excesses of the previous decade, of which only the first can be here considered. It was truly the darkest period of Brazilian economic history. The rapid and wide varations in the rate of exchange of currency made impossible healthy commercial relations with foreign countries. Import operations became practically a gamble, and Brazil very soon lost its former position of distributing centre for the immense "back country". The home industries were also in a very precarious state. Most of the vast enterprizes planned during the megalomania of the end of the eighties were either unfinished, or not working, while the few which did work produced only a very small share of what they were capable of doing. We shall see later on how on these ruins a new, more modestly planned and therefore stronger, industry arose, but in 1895-6 the products of the Brazilian factories were poor in quality and expensive, while the owners were, with hardly any exceptions, all the time on the verge of bankruptcy, and some well beyond it. In agriculture the coffee-raising States suffered from over-production , and from fall of prices due to a bearish campaign of European speculators, while the Northern States (Bahia, Sergipe, Alagoas, Pernambuco, and Parahyba) were heavily struck by the United States tariff of August 28, 1894, which put a duty of 40% ad valorem on sugar, the chief product of the agriculture of these States.

All these circumstances, together with the speculation on the rate of exchange, and evident disorganisation of the currency and finances of the country, caused a general despondency which was felt throughout the country, both in the large cities and the fazendas of the interior. The only way out of it was to follow the old liberal program:"peace reform, and

retrenchment", and, as far as circumstances permitted, that was on the whole the policy adopted by the Government.

One of the first measures of general importance was the highly protective tariff of I895. We have seen above how abnormal was the situation of Brazilian industry at that time. Of course, it was the fault of the manufacturers themselves that they have built immense factories where there was no need for them, and a State has no business to save gamblers from paying their losses. But the speculators were there clamouring loudly for protection, and using all their powerful business and social connections to obtain a tariff which would save them at the cost of the welfare of the consumers, while the consumer was merely a thoretical quantity somewhere in the backwoods of the country. A parliament of a Latin nation, according to the opinion of Mr. Calogeras, the learned historian of the Brazilian currency, is peculiarly liable to be influenced by sentimental currents of the kind created in their favour by the protectionists, and when the leader of that party, Mr. Pereira, happened to be, owing to the illness of President de Moraes, for a short time at the head of affairs, he had no difficulty in persuading the Houses to accept the teriff of I895, which led to two things: made living more expensive, and, by increasing the exports, and decreasing the imports, made the task of the central# financial administration still more difficult. Mr. Alves, the then Minister of Finance, tried to reestablish the payment of part of the custom duties in gold, but the Con-

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According to the constitution, the duties on the exports went to the Federated States, and those on the imports to the central Government.

gress did not approve of it, and thus left to the Minister only one way open - that of purely financial operations.

There were two problems which required immediate attention: the redemption of at least a part of the banknotes, and the settlement of the claims of the national banks in connection with the withdrawal of their rights to issue banknotes. The first was partly attained by the issue of the loan of 1895, of a nominal amount of 100.000 contos in paper, at 5% interest, issued at 95% and very rapidly oversubscribed, a fact which, considering the state of affairs in the country, could with justice be pointed out to the foreign capitalists as a proof of the high confidence of Brazilian investors in the policy of their Government. When the loan was issued, it was promised that half of it will be used for the redemption of banknotes; as a matter of fact, only 30% were so used, and it hardly produced any impression on the money market because everybody knew of the heavy deficits in the budget. This part of the program was distinctly a failure.

The Government was more fortunate in its dealings with the banks. As a fair example of what the banks wanted to get from the Government may be quoted the calculation presented by the Banco Emissor de Pernambuco. This bank had deposited in the Treasury L 475.077, or, at the current rate of exchange, 11.123.425$. To this the bank added 5% on what this sum would amount to if it were converted into gold apolices, or 26.130.150$ which left, after deducting the amount of banknotes in circulation (15.558.200$), a balance in favour of the bank of 21.704.302$, but the bank was willing to compromise on 14.000 contos. Such a demand was all the more characteristic that, according to the

charter of the bank, and the Currency Acts of I890, the bank had no right to issue notes for more than twice its deposit in gold, so that, within the strict sense of the law, the bank instead of being paid an indemnity could be indicted for fraud.

The other banks made claims of a similar nature, and the Government flatly refused to consider such a ruinous settlement. The banks then submitted another plan which was finally accepted, viz.:the banks had to deposit gradually in all sorts of banknotes (i.e. not necessarily their own) the nominal amount issued by them, and the Government was to return to them a proportional amount of the apolices from their deposits, such an arrangement to continue until the total withdrawal of the banknotes from circulation. It is by no means clear why the banks have been willing to adopt a settlement from which they could derive so little profit.

The success of the internal loan and the firmness of the Government in settling the claims of the banks have helped it to make a loan in London of L6.000.000, at 5% interest and I% amortisation, issued at 85%. The Brazilian economists think that the issue of this loan was a mistake. It is however doubtful whether the Government could avoid making it. It had to pay the L2.000.000 in drafts issued in the beginning of I895, as well as to cover the expenses of building the battleships and restoring the war materials destroyed during the preceding revolution. The Government had also to find some source to cover the deficit of I8.90I.4II$ in the budget for I895, as well as to form some fund abroad which would permit it to keep away from the unsteady local money market. Mr. Calogeras thinks that it is a very bad plan to cover budgetary deficits by loans: it would probab-

ly be more correct to say that it is a bad plan to have deficits irrespective of the methods of covering them.

In general the outlook in I896 was certainly brighter than in the preceding year. It is true that the price of coffee was rather low, and the disorder in the monetary circulation was just as bad as before, but the Government succeeded in obtaining a rise in custom duties of 25%, placed under a stricter regulation the brokers, suppressed the traffic in rebate certificates for custom duties (guias), and did a good deal towards putting back in working order the railroads and other methods of transportation totally desorganised during the war. The organisation of the Leopoldina Railway Co. which took over the business of the former Companhia Ferral das Estradas de Ferro attracted universal attention, and was considered as a proof that the worst period was over. Now was the time for a thorough reform of the monetary circulation, the most pressing need of the time, and for that "retrenchment" which the liberal party used to make part of its war-cry.

The law of December 9, I896, was the first step towards the reconstruction of the currency system. It established definitely the important and fundamental principle that nobody but the State, not even the highly privileged Banco da Republica, will henceforth have a right to issue banknotes, and that all the guarantee deposits made in connection with their issues were to become the property of the Treasury; that the bonus which were up to then good only for transactions between the Government and its debtors, and of which large amounts were collected in the Custom-House of Rio and the Banco da Republica, were to be treated as, and replaced by, banknotes of the State. The with-

drawal of the paper-money was to be continued until the normal rate of exchange of 27 d. was reached, and the following resources were to be used for this purpose: the interest on the bonus converted into non-interest-bearing banknotes; the payments of the Banco da Republica which it was expected to make, according to an arrangement to be agreed upon, in settlement of its debts to the Treasury (it was expected that not less than I00.000 contos would come into the Treasury from that source); budgetary surpluses, and finally certain parts of the revenue obtained from the proposed leasing of the Federal railroads. It was decided to retire I0% of the banknotes in circulation in I897, I5% in I898, 20% in I899, and 25% inI900, or seventy percent of the total circulation in five years, and that circulation was at the end of I896 (in contos):

issued by the State....	780.328. 6
issued by the banks...	340.7I4. 3
Total.....	I.I2I.043

A comparison of this vast sum of actual banknotes in circulation with the problematic sources of cash to be used for their withdrawal makes it practically useless to criticize the law of December I896. It was promulgated under the influence of the panic created by the fall in the price of coffee, and feverish buying of foreign goods prompted by the introduction of the new tariff. But the law which intended to redeem seven hundred millions in banknotes from budgetary surpluses at a time of regular and practically unavoidable deficits (in I895 - I8.90I contos, in I896 - I40. 392 contos) was a dead measure from the day of its birth, and the money market went from bad to worse notwithstanding its publication. In the first half of I896 the average

rate of exchange in pence was 9.33, and the lowest 9 7/8; in I897, i.e. after the publication of the law of December I896, the average for the first half fell down to 8.05 with the lowest quotation of 7 7/I6, while in the second half of I897 the average was only 7.35, with a minimum rate of 7 I/32 in December I897. Meanwhile it became also clear that the project of advantageously leasing th e State railroads from which was to come a large part of the money for the redemption of banknotes, could not be carried out, and the fall of the rate of exchange, in January I898, to 6 25/32, while being only natural under the existing circumstances, struck the popular mind so forciblythat even the 5% apolices which held their ground fairly well all the time, went down all of a sudden. Something had to be done pretty quickly, and of a really substantial character, if the situation was to be saved at all, and the solution of the problem was found in the important measure known in Brazil under the English name "Funding-Scheme".

This scheme which was adopted only after the utter failure of an attempt to issue in London a large loan, and the definite refusal of the agents of Brazil, the banking house N.M. Rothschild and Sons, to support any new schemes until a sufficient fund was created in London to make the Government independent of the Rio money market, was formed and carried out under exceptionally favourable conditions owing to the hearty support of the persons then at the helm of the Brazilian administration, and to the powerful interests which promoted it on the European side. The Funding-Scheme represented mainly the wishes of a rich and respectable group of English holders of Brazilian securities, men who bought them for investment, were

on the whole far from trying to seek any side profits in speculation; they were naturally deeply concerned in the growing depreciation of their holdings and the possibility of even the payment of interest being stopped, a possibility at that time actually under discussion both in Rio and London.

The contract for the Funding Loan was signed on June 15, 1898, and was based on the following principles: the Government recognised its inability to pay in current money the interest and amortisation on the external loans, the internal loan of 1879, the loan of the Companhia Estrada de Ferro Oeste de Minas, and various railway loans guaranteed by the State, and proposed to pay the interest on all these loans (enumerated in the actual contract, and by Calogeras, p. 326) in 5% gold funding bonds, issued as required for this purpose. All amortisations were to be stopped altogether until June 30, 1911. The maximum amount of these bonds was not to exceed £10.000.000 (ultimately only £8. 613.717 were issued). They were to be issued at par, with quarterly paid interest, and were to be redeemed in 50 years from July 1, 1911, the Government having the right to redeem them at par at any previous date. No loans could be issued by the Government previous to July 1, 1901, unless by a special agreement with the Rothschild's bank in London. Beginning from ~~from~~ 1st January 1899, simultaneously with the issue of the bonds, the Government had to deposit their value in banknotes, at the rate of exchange of 18 d., with one of the following banks: London and River Plate, London and Brazilian, and Brasilianische Bank fuer Deutschland, the banknotes to be with-drawn from circulation and destroyed. This agreement did not cover the loan of 1897.

It would be difficult to define precisely the benefits which were derived by Brazilian finance and commerce from the adoption of the Funding Scheme. In the end of April I898 the rate of exchange was only 5 5/8d., and in May a committee of importers waited on the President of the Republic, and asked him to help to free the market from "the daily growing terror of a panic, a terror dominating all and menacing everything". The respite granted to the Government by the Funding Scheme allowed it to begin the execution of a real financial and economic program, a quite different from the former feverish, but unsystematized and therefore seldom efficient, chase after sources of immediate revenue.

One of the heaviest sources of deficit was disposed of by leasing most of the railroads to private companies. In this instance, as nearly everywhere with the exception of Germany, the roads which were a heavy burden to the taxpayers while operated by the Government, became, in many cases from the first year on, a paying proposition in the hands of private concerns. A I0% payment in gold was established for the custom duties, and the whole system of taxation carefully revised. "Retrenchment" became the watch-word of the Government, and it was practiced with a fanaticism which paid no attention to popular feelings or open revolts, and did not stop at violent - often needlessly so - or even questionable measures. The situation was, however, desperate enough to justify to a certain extent even extreme measures.

The deficit in I898 amounted to 463.6I8 contos, or I06% of the revenue, and there were 779.965 contos in circulation which had to be raised to 300% (I8d.) of their current rate of exchange

change (about 6 d.).

Whatever could bear it, was taxed. Tobacco, liquors, matches, salt, shoes, playing cards, vinegar, and even drugs had to bring their share into the Treasury. The battleships under construction in England were sold, as well as the bonds received from the Banco da Republica under a former agreement (of May 18,1897). Besides this, two special funds were created exclusively for the regulation of the banknote circulation: the first bore the title "Fund for Redeeming the Paper Currency", and had the following sources of revenue assigned to it: the payments in banknotes on the leases of Federal railroads; payments by the debtors of the State, including payments from banks and the liquidation of the bonus; income of the State from sources of an accidental character, and budgetary surpluses. Notwithstanding the uncertain character of its sources, the fund was a very real thing, because, as was said above, by this time several of the Federal railways were already leased, and gave promises of a very substantial revenue to the State. The second fund was called a Fund of Guarantee for the Paper Currency, and had assigned to it all payments in gold from the leases of Federal railways, a part of the gold received in payment of custom duties and taxes, and all other gold payments. This fund was to be kept in London, but the Government reserved for itself the right, through the Banco da Republica and under certain restrictive conditions, to withdraw from this fund up to 20.000 contos, if that should be required to alleviate the tension of the money market at home. The right of issuing banknotes which has been so largely and unfortunately used by the Government to help out the banks, was abrogated, and a strict publicity of accounts

concerning baaknote issues and incineration was introduced.

The methods adopted were in reality very simple, and embodied only the most elementary principles of financial and economic administration, long before that time recognized and practiced in the older countries of Europe and America, but the results were certainly good. The average rate of exchange rose in I899 to 7.Id.; 4I.I46 contos were withdrawn from circulation, and, what was still more important, instead of the customary deficit there was a surplus of 37.74I contos. The balance of trade was also in favour of the country to the amount of 20I.290 contos. The system was however too new and too much at variance with the habits which had grown up in Rio during previous administrations when a clever and well connected man could always hope to coax the State Treasury into granting its supports to his schemes, however little they deserved it. The new system, moreover, by raising the cost of living, caused some actual hardships to the people, and the often unnecessarily violent method of its application was not likely to reconcile to it the public sentiment. The opposition resorted to every means: commercial associations made to the Government representations couched in terms so violent that they could not be even accepted for consideration; the oppositionary press both at home and abroad vilified the Government, and passionately criticised every one of its measures; there were even open revolts. But there was a thing which gave to the Government more trouble than all that the opposition could devise, and that was the banking crisis of I900, practically the last of the monsters created by the old financial regime.

It was shown above how heavily watered was the stock of

the Banco da Republica do Brasil, and how little actual capital it had to work with. As long, however, as the Government Printing House was there to supply it with banknotes (from January I890 to February I900 to help out the banks 260.455 contos were issued, and only 20.000 contos returned), the Bank could hold its own. The law of July 20, I899, has now prohibited any further issues of banknotes for such purposes, and the banks began immediately to complain of a scarcity of currency. The Banco da Republica thought that it could manage its affairs better if it got rid of the official control which was then becoming more and more troublesome. But as long as the Bank was in debt to the Government there could be no question of any freedom which in this instance meant really freedom to speculate on the rate of exchange. This was the origin of the subsequent offer on the part of the Bank to settle its accounts with the Government, an offer which was very favourably accepted because, on one hand, any cash was welcome to the Treasury at that moment, and, on the other hand, the Government was aware of the real situation of the Bank, and was inclined to get what could be got before the institution went down entirely. It was finally agreed that the Bank would pay to the Government 50.000 contos, 25.000 at once, and the rest in four quarterly installments, while the Government transferred to the Bank its claim on the Banco Hipotecario. Such an agreement could not help causing trouble since to withdraw 25.000 contos from an institution so slenderly provided with working capital meant to enfeeble it for work, and that again, considering the prominent position of the Banco da Republica in the country, was equivalent to an enfeeblement of the whole banking community of Rio. The Government tried at first to

counteract this tendency. In February 1900 it deposited in the Bank 10.000 contos in short-term securities (Treasury drafts), and made some of its main branches depositaries of the surplus of public revenues in the provinces; in June, when the money market became tight again, it lent to the Bank £600.000. But, instead of using this last sum for legitimate business, the Bank lost it in one month in a foolishly conducted speculation, helped to make the rate of exchange jump to 14⅜ in July, and break down again to 9⅞ in August, and, notwithstanding the law of 1899, clamoured for an issue of 50.000 contos in banknotes to help it out. The Government was willing to help the Bank in other ways, but not by issuing banknotes. The negotiations hung for several days, and finally, on September 12, the Bank closed its doors. The same was done on the same day by the banks Rural e Hipotecario and Lavoura e Commercio, while other institutions of credit followed suit during the next few days. The Government this time was well prepared to meet the situation. Within eight days from the formal beginning of the crisis the Law No. 689 was presented by the Government to the Houses of Congress, voted by them, and signed by the President. This law authorised the Government to issue special 3% apolices (the so called inscripções) to pay the debts of the Government, and to deposit in the Bank £11.000.000 from the Fund for the Guarantee of Banknotes, and 25.000 contos in banknotes as a current account at 2% interest to be used for legitimate discount business exclusively. The most important part of the law, however, was that which made such a help to the Bank conditioned upon the consent of the shareholders to practically surrender to the Government

the whole business of managing the bank until the time when all its debts will be paid. The shareholders, having only the choice between accepting the conditions of the Government or letting the Bank go into receivership, accepted the first on September 22, and five days later the creditors of the Bank formally accepted the offer of the Government to pay them their claims ~~of~~ in inscripções. On October 10, 1900, a new law for the liquidation of insolvent banks was passed, and promptly accepted by all the banks in the country. A few days later the Banco da Lavoura e Commercio opened its doors. A new era was beginning. The average rate of exchange in 1901 was already 11.36 d., with a minimum of 9 23/32 d., and the amount of banknotes in circulation at the end of the year was only 680.451 contos. That this was not due to financial manipulations, but represented the result of a real development of the ressources of the country, was shown by the success of the railroad companies and especially by the 412.473 contos in favour of the country in its balance of trade. At the same time there were no more Government drafts in circulation, and over L 3.000.000 in various deposits in London.

The following table may be of interest:

Year.	Fund for the Guarantee of Banknotes £	Fund for the Redemption of Paper Currency Contos	Revenue contos		Expenses contos		Average rate of exchange pence	Balance of trade contos
			Gold	Paper	Gold	Paper		
1900	865.571	2.871	49.955	263.687	41.892	372.753	9.4	+512.730
1901	776.114	2.950	89.123	379.307	40.493	289.390	11.36	+412.473
1902	758.879	2.714	91.548	358.339	35.236	236.549	11.9	+264.826

The period I902 -I906 was devoted to quiet and methodical constructive work of a character highly beneficial to the country. The Government of Mr. Rodrigues Alves, former Minister of Finance, saw that it was not the absolute amount of banknotes in circulation that caused trouble, but its excess in relation to what was required to carry on the business of the country. Instead, therefore, of crippling the productive powers of the country by forcing the circulation down to the level of the requirements of the commerce, the new Government endeavoured to build the country up to the circulation. All the heavy work was by that time done by the Cabinet of Mr. Campo Salles, and Mr. Alves had no more need to use the harsh methods of the preceding administration, which allowed him to solve some of the most delicate and important problems, especially in connection with the financial relations of the States to the Central Government

The events of the preceding years have done much to draw the trade away from the port of Rio which ought to remain the commercial centre as much for commercial, as for political reasons. The new administration succeded in making a loan in London of L 8.500.000 (L5.500.000 at 90%, the rest at 97%), and devoted it to the reconstruction of the port. At the same time the municipality worked hard to put the city in good shape, and not only succeeded in making it one of the most beautiful cities of South America, but got rid of the yellow fevers which made the sojourn there so dangerous. Much was also done to abolish the numerous internal custom duties which very seriously hampered the development of internal trade, but could not be touched before without offending the jalousies of the various Federated States. The part of the custom duties paid in gold was raised from 25% to 35% in some instances, 50% in others.

The reconstruction of the Banco da República, based on the development of legitimate business, was carried out so successfully that the Bank became one of the strongholds against various attacks of local and foreign speculation on the rate of exchange. The Fund for the Guarantee of Banknotes rose from L 2.592.566 at the end of 1902 to L 8.131.887 at the end of 1906. The Redemption Fund rose during the same time from 8.535 contos to 20.875 contos. The quotations on Brazilian securities showed how favourably the investing public viewed the situation: the 5% apolices and the 5% foreign loans were at par or even slightly above it, while the Funding Bonds were quoted at 106. This was all the more significant because the market in 1904 - 6 had no lack of material to offer to the investing public, and the securities of the Russian and Japanese Governments, as well as these required for the mighty development of industries in United States and Germany offered an unusually varied and attractive choice to the investors. In view of this the slow development of the Fund for the Redemption of Banknotes is extremely significant in showing that the Government believed not in reducing the number of banknotes, but in building under them a solid foundation in the form of a large gold guarantee fund and, especially, a healthy development of the productive forces of the country. The following table (taken from Calogeras, p.386) shows that it was justified in its policy.

Year	Average Rate of Exchange pence	Imports c	Exports o n t o	+Balance s.
1902	11 3/32	471.114	735.940	264.826
1903	12 9/32	486.488	742.632	256.143
1904	12 7/32	512.587	776.367	263.779
1905	15 57/64	455.994	685.456	230.462
1906	16 3/64	499.286	799.670	300.383

The growth of the imports in this table shows that the indust rial equipment of the country was slowly but steadily improving, a fact which is also indicated by the increase in the volume of traffic and mileage growth of the railroad system (from I5.680 kms. inI902 to I7.242 in I906).

In all this brilliant situation there was, however, one dark point which soon made itself felt: troubles on the coffee market. The trouble of the producers of coffee was mainly this. The lands were for the most part bought at an excessive price, and the development of the plantations carried on on borrowed money. A coffee plantation represents a heavy investment, and cannot be turned to another sort of culture without the loss of practically the whole investment. At the same time coffee is not a commodity that the market can absorb indefinitely. An overproduction and a fall of prices were bound to occur, and did as early as I897, but for some time the consequences did not trouble the producers as much as they ought to owing to the fact that all the debts and expenses were in paper money, and, while the

price - in gold - fell on the European markets, the rate of exchange fell also, and the Brazilian fazendeiro got enough bank-notes, however depreciated, to carry on his business. But in I906-7 the production of coffee reached the maximum of 20.2 mills. sacks, while the average rate of exchange was above I5 d., and the whole business of coffee production saw bankruptcy looking in its face. The State of São Paulo in which the culture of coffee was by far the most important industry, took the lead in the matter, introduced a special tax of 2$ on each alqueiro of new land planted by coffee trees, and, by cleverly manipulating the public opinion, persuaded the Federal Government to pledge its support to a Governmental regulation of the industry. Moreover, it induced the two other States most interested in keeping up the prices of coffee (Rio and Minas Geraes) to join it in an agreement known as the "Convenio de Taubaté". By this agreement the States proposed to maintain the price of coffee, type 7 New York, at 55 to 65 francs per sack of 60 kgs., and to raise it to 70 francs if convenient; to prevent the exportation of inferior kinds, and to develop their consumption in the country; to standarize the article, and to create Coffe Exchanges and Chambers of Commerce of Coffee, to limit over-production by means of a restrictive taxation. To obtain the funds necessary for the carrying out of this plan a loan of LI5.000.000 was to be made by the State of São Paulo, guaranteed if necessary by the Federal Government, and in order to prevent oscillations of the price (in paper money) of this loan, the amount obtained by it was to form the depositary capital of a Caja de Conversion to be created by the Federal Government. This agreement, in a modified form, was, after some opposition, approved by the Federal Con-

gress on August 6, I906.

In this instance the Brazilian Government made a mistake which it was not the first to make. Prices of commodities cannot be regulated by law, and the machinery of a government is not adapted for engaging in price manipulations on the international market. Such was also the opinion of the banking community in Europe, and, when the Federal Government tried, in January I907, to obtain a loan for this purpose, the London bankers replied that they cannot lend their name and responsibility to a maneuver of so hazardous a speculation condemned by the financial and commercial circles of the whole world. It seems, however, that the moral scruples of the world's banking community could be rather easily overcome, since during the next year L II.000.000 were placed on various European markets, of which L 5.000.000 were issued in London, and the State of São Paulo, with the approval and active support of the Federal Government, was enabled to go on with its "hazardous speculation" of the so called valorisation of coffee.

It was mentioned above that the real difficulties in the coffee production began when the rate of exchange went up. As a matter of fact, the whole country suffered from the instability of the rate of exchange which inevitably introduced a dangerous and highly undesirable element of speculation into the most legitimate branches of business. But the coffee producers were practically the only class which could gain by the low rate of exchange, and were losing at the high rate. To understand this, it must be remembered that although on the whole the rate of wages tends to adjust itself to the cost of living (which in a country like Brazil depends largely upon the price of imported

commodities, and this price is in its turn a function of the rate of exchange), still the wages are apt to fall more rapidly than to rise, and, as a rule, do not rise as fast as the cost of living rises, and the rate of exchange falls. Now, as was pointed out by the Jornal de Commercio in I907, I.000 sacks of coffee, at 60 francs per sack, will bring in Brazilian currency the following sums:

at I8 d.....	3I:797$
I5 d.....	38:I56$
I2 d.....	47:697$

If the wages be I0:000$, then the results for the workman and fazendeiro in gold milreis will be as follows:

	workman:	fazendeiro:
at I8d.....	6:660	I4:532
at I5 d.....	5:555	I5:643
at I2 d.....	4:444	I6:754

Or, by a change of the rate of exchange from I8 to I2 pence, the workman loses 2:222, and the employer gains practically the same amount. This little calculation was necessary to show the interests which were really protected by the new financial venture. What was desired was to bring the rate of exchange to I5 pence, make such arrangements that it would not go above that figure, and to trust to luck - or ill luck, since the original project was to fix the rate at only I2 pence - that it will not go below it; the Caja de Conversion answered all these purposes.

This institution was to receive Brazilian gold coins, lire, marks, francs, dollars, and British sovereigns, and issue in exchange special banknotes of which the value was fixed at I5 d. per milreis, such banknotes payable at sight in gold at the

same rate; no banknote redeemed by the Caja was to be issued again (in imitation of the practice of the Bank of Rngland). The issue of the Caja could not in any case exceed 320.000 contos (corresponding to a gold deposit of L 20.000.000). In other words the Caja intended to do what the Bank of Amsterdam and John Law did in the seventeenth century, with the important difference, however, that in this instance the Government deliberately tried to bring down the value of its own banknotes in the interests of a powerful minority, and at the expense of an overwhelming majority of the population.

The creation of the Caja de Conversion had as one of its results the appearance in the country of two kinds of currency at the same time: a convertible currency consisting of the banknotes of the Caja, or really gold certificates, and an inconvertible currency guaranteed by a large and growing gold fund, gradually diminishing through the operation of another fund (for the Redemption of Banknotes), strictly limited in amount for the future by the laws of I899, and relying for its valuation on the requirements of the circulation of an immensely rich country which was little by little arranging its financial and economic conditions so as to insure for itself the development to which it was amply entitled. The inconvertible currency could rise in price both legally and by the action of live economic forces, and it did so, although its rise was of course hampered by the banknotes of the Caja: at the beginning of I9I0 the rate of exchange was about I6d. This had several rather unexpected consequences. It afforded a possibility to make good profits by importing gold specie, selling it to the Caja at the rate of I5d., or I6$ per sovereign, and then buying drafts for

the same sovereigns at I5$. A debt could be also paid in two ways, both apparently legal, but if paid in one way, I00$ could buy L6-I3-4, and if paid in another way - only L 6-5-0. Finally the situation became so threatening that the Government had to present to the Congress a law raising the rate of exchange of the banknotes of the Caja to I6d., but, as far as the present writer is aware, this law has not yet been accepted.

The Brazilian currency presents a peculiar phenomenon in that, contrary to the ordinary practice, the efforts of the Government are directed not toward bringing it to its legal par value and keeping it there, but toward preventing it from reaching the rate of exchange to which it is entitled by the wealth and economic conditions of the country, and the state of the gold fund behind the banknotes. It is to be hoped that the growth of the rubber industry which does not depend on a low rate of exchange for its prosperity, and the general spread of healthy economic and political doctrines in the country will lead to a more normal monetary legislation, and this seems to be the only thing that the country at the present moment wants in order to establish, within a comparatively short time, a strong gold banknote currency, ~~and~~ such a currency ~~is~~ now being the conditio sine qua non of a healthy and systematic growth of national wealth, espesially in a new country which depends for the rapid development of its ressources on the use of cheap foreign capital.

CHILE.

Chile has inherited its monetary troubles from the days of the Spanish regime. In I895, however, the Government considered the situation as favourable to resumption of gold circulation, and established, by the law of February II, I895, a rate of exchange of I8 gold ~~gold~~ pence for a paper peso (or a peso of 0.599I03 gr. of gold). The total circulation at this time amounted to $59. 500.000. To maintain this rate of exchange was by no means easy. ~~The~~ Economic conditions in I895 were very bad, many banks had failed or were on the eve of failing, prices of real estate were going down, and commerce was disorganised. But as long as the political situation was satisfactory, the Government managed to maintain the rate of exchange close to par. When, however, in I897 there arose international complications, especially with Argentine, one of the members of the Congress found that he could in "two words" describe the state of affairs:" the situation was such as to cause anguish, and the principal cause for it was lack of confidence in the continuation of the existing monetary system" (Congressman Mac-Iver in the sitting of July 27, I897). Very little was, or indeed could have been, done to give things a brighter aspect. The economic situation grew worse and worse, and finally, on June 23, I898, the Minister of Finance had to ask the Chamber to consider the monetary question in a secret session. As could well have been predicted, this was the beginning of the end. The secret was but ill preserved, and enough became known to scare the public, especially in Santiago, into a run on the banks for their gold. The

secret session of the Chamber found that the "Argentine question was seriously alarming", and authorised the Government to spend L 500.000 on war preparations, - a decision which was hardly likely to restore public confidence in monetary matters, and on July 6 the banks in Santiago asked for a permission to close their doors until July II. Such a permission was readily granted, and, further, a law was published giving the banks a "moratorium" of thirty days during which the Government was to consider the monetary situation. This consideration resulted in the issue of $50.000.000/pp in banknotes, which were made legal means of payment. It was promised at the same time that the metalic circulation would be resumed on January I, I902.

This, however, was the worst moment of the whole period. In the second part of the year treaties with Peru and Bolivia were signed, and it appeared very soon that the danger of a war with Argentine was very much exggerated. The foreign trade was growing, and in four years (I898 - I90I) gave a balance in favour of the country of I94.000.000 pesos (in pesos of I8 d.). It must be also remembered that the considerable amount of gold which was drawn out of the banks during the panic of July I898 belonged for the most part to residents of the country, and did not go abroad, but was simply hoarded by them (G.Subercaseaux, in Revista de Derecho e Jurisprudencia, I904). There were therefore no economic reasons to cause a permanent fall of the rate of exchange, and if it did do so temporarily, it was mainly owing to fear of an increase of the amount of paper money in circulation. Thus, when in January I899 a project of a law providing for a large increase in the issue of banknotes was presented to the Chambers, it brought the rate of exchange

considerably down (average rates in gold pence: 1898 - 15 11/16 1899 - 14 9/16, 1900 - 16 7/16), although the motion was opposed by the Government and finally defeated. But whenever the political situation outside, and the politicians inside, left the money market alone, it rapidly recovered as far as it could, and, e,g. in the beginning of 1901 the rate of exchange reached 17d. In other words, the circulation accepted the $50.000.000 thrown into it in 1898 at a cours forcé, and nearly brought them up to the legal par value. The trouble was, however, that there were always some powers behind the scenes of national life which did not let the market alone. The Chamber developed a habit of holding secret sessions which made the public believe that a rupture with Argentine was close at hand; from time to time there happened things insignificant in themselves (as, e.g., the appearance of some Argentine policemen in the province of Ultima Esperanza), but which, in the hands of politicians and some newspaper men, helped to keep alive the lack of confidence in the stability of peace, even after the two governments confirmed their desire to avoid war by the agreement of December 25, 1901. It cannot be denied, though, that the public had some reason to have its own opinion as to the peaceful intentions of their governments, because, just about or a little after the time of the agreement, the Argentine Government bought two ironclads in Italy, and the Chilean Government ordered the same number ~~of them~~ in England. As a result, the rate of exchange began to fall again, and in December 1901 reached the minimum of 13¾d.

Under these circumstances it was natural to put off until January 1, 1905, the resumption of the payments in gold which, according to the law of July 1898, was to take place on January

I,I902,,and Senator Matte expressed the views of the conservative business elements of the country when he said that he "is not afraid to put off until I905 that which, if undertaken in I902, would be the ruin of a great and beneficial idea, and an enormous injury to the solid and permanent credit of the Republic".

This act of the Government was often criticized later on (e. g. by Julio Zegers in his Estudios Economicos, p. I65ff.) on the ground that the danger of war with Argentine was exaggerated, and that Argentine would never have dared to declare war while the ~~the~~ Argentine-Chilean controversy was under the consideration of the King of Great Britain as an arbiter. All that proved to be correct, but it is very doubtful whether the certainty of peace was strong enough in I902 to allow the Government to take a step of such importance as the resumption of gold currency, a step which, in the best case, would have brought but little real advantage (since in quiet periods the exchange was very near par even as things were then), and might, if things went wrong, have had very disastrous consequences, and have resulted in a loss by the country of large sums of gold. As a matter of fact, the military expenses during I90I and I902 amounted to $ 20.000.000, and this sum was taken from the fund destined to redeem the banknotes in circulation. The economic situation of the country was, however, very good, and so was its foreign trade, as shown by the following table:

in million pesos of I8 d.

Years:	Imports:	Exports:	Balance:
I902...	I32.4	I85.8	53.4
I903..	I42.4	I94.3	5I.9
I904...	I57.2	2I5.9	58.7
Total	432.0	596.0	I64.0

In Antafogasta, Taltal, Aguas Blancas were discovered new deposits of salpetre, and what was considered to be an arid desert proved to be a source of wealth to the State, and a great help to the growth of the gold fund of the country. In the South, near the Straits of Magellan, and still more in the North, on the Argentine frontier, vast, until then unexplored prairies were found to be very convenient for ~~the~~ raising ~~of~~ cattle and horses, while in the primeval forests of the continental regions and the islands of the Archipelago began to develop a promising lumber industry. And, as was to be expected, the rate of exchange gradually rose to I7 d. More evan, there was distinctly felt a scarcity in media of circulation. The law of December I90I provided that payments in gold should be resumed on January I, I905, and there were many who considered that it ought to be done, but the Government, recognizing the economic progress of the country, still considered that the large military expenses of the preseding year have made such a hole in the conversion fund that it would be unwise to resume the gold payments at that particular moment. Instead of this the Government found it more convenient to increase the fiduciary circulation by a new issue of $ 25.000.000, and by guaranteeing in full the new banknotes. This project met in the Chamber with an

opposition, the most important argument against the new issue being that the country did not want any increase in the media of circulation. The following table (taken from Subercaseaux, El Papel-Moneda en Chile, p.I5) shows however that the turnover of money increased very considerably; this table gives the movement of banking capitals and business according to the figures of the Officina Central de Estatisdica:

in million pesos:

Year:	Paid-up capital:	REserve funds:	Deposits:	Loans:
I90I...	42.I	4.4	94.6	I06.7
I902...	53.3	5.I	I4I.3	I73.I
I903...	54.7	5.3	I36.2	I62.8
I904...	65.3	8.6	I7I.0	20I.6
I905	76.0	II.I	294.I	296.9

It must be, further, taken into account that during this period the Chilean industry expanded not only in volume, but also geographically. Business, as was mentioned above, was carried into new parts of the country, and large sums were paid out in wages to a population which was not yet civilised enough to make use of banks even had they existed in those latitudes, which often was not the case. There was therefore certainly a considerable drain on the monetary resources of the centers, and it is very likely that the existing amount of banknotes was often felt to be inadequate to the new demands of the circulation. That it was by no means excessive even three years previously is partly shown by the rate of exchange of I7d. which the peso reached in I90I, and which it could not have reached if the mar-

ket were at that time weighed down by an excess of banknotes in circulation.

The law of December 29, I904, postponed until January I, I9I0, the formal resumption of the gold circulation, and allowed a new issue of $30.000.000 in banknotes. It also provided for the formation of a Conversion Fund to which the following sums were assigned: the $23.000.000 (in gold pesos of I8d.) then deposited in the Treasury; the $ I5.000.000 (gold pesos of I8d.) obtained through the sale of the ironclads Constitution and Libertad; the $5.000.000 (gold pesos of I8 d.) a month from Custom House revenues, and all revenues from the sale of salpetre lands and lands in the Magellan Territory. The last two sources were to be used only until the time of the fund reaching the value of $80.000.000 , equivalent to the amount of banknotes in circulation. The fund was to be kept in first class banks in Europe, and to be transferred to Chile, for stamping it into local coins, prior to the resumption of payments in gold.

This statement of the law shows that the Conversion Fund was started with $ 48.000.000 gold pesos, or 60% of the nominal amount of the banknotes in circulation which, considering the volume of the business done in the country, was even at that time nearly sufficient to resume payments in gold. There must therefore have been some reason why the Government did not venture to do it at once. This time the reason could not be fear of a war with Argentine or somebody else. The Russo-Japanese war was approaching, and it was evident that no small powers would be allowed to cause any disturbances in the diplomatic relations quite sufficiently complicated by the important problems more or less unexpetedly originated in the Far East. Later events

have shown that it was the very rapidity of the growth of business, or rather the underlying element of inflationist speculation, which prompted the Government to sin by cautiousness, if sin there be. The following table taken from official statistics gives an idea of the growth of speculation, because, although formally it is a statistical account of new incorporations, actually it represents for the most part affirs created for the exclusive purpose of providing material for stock exchange operations.

Year:	Capital of new incorporations:	
	L sterling:	Pesos mills.
I900..	230.000	23.9
I90I..	475.000	I5.9
I902..	40.900	I0.9
I903..	.....	20.4
I904..	995.000	58.5
I905..	5.74I.240	II3 .3

This could not, of course, last long, and in I906 a break in the market occured which, although it had no really disastrous effects on the development of the national industries, forced many speculators off the scene of operations. It brought also a serious dearth of the media of speculation, because the banks which had large sums tied up in ~~capital~~ credits, securities, and European deposits, were in danger of being unable to meet their obligations in Chilean banknotes. The Government wanted to meet the difficulty by creating a Caja de Conversion which would issue banknotes having a legal value in exchange for gold, but the Congress did not like the idea, and after some disagreement first with the Government, and then between the Upper and Lower Houses,

passed the law of May 23, I906, by which the Government was authorised to issue 40.000.000 pesos in banknotes of which twenty millions were to be used for military purposes, and for the construction of waterworks in various cities, and a railroad from Arica to La Paz. This part of the issue was to be guaranteed in full (i.e. in pesos of I8d.), the guarantee to be obtained from loans (L 3.700.000) which the Government was authorised to make for these purposes. The remaining twenty millions were to be lent to banks and private individuals who could secure the loan by deposits of gold or gold drafts on London. The issue of the 40.000.000 pesos improved the situation considerably, and, moreover, the market viewed very favourably the election to the Presidency of señor Montt who was known to be in favour of economical administration and of a return - at the first opportunity - to payments in gold. Under these circumstances the earthquake of August I906 was a peculiarly hard blow to the country, and immediately affected the rate of exchange which in October and November was at I4 d., and which gradually fell to II d. in April I907. It was not however, the earthquake alone which produced such a fall of the rate of exchange. The earthquake rather only brought out all the weak points in the situation which had already once, about a year before, produced a small panic on the market. As a result of all this, the outlook in I907 was far from encouraging. All new enterprizes fell into total discredit, the price of stocks went down, and the public was horrified at the amount of the expenses required to restore what was wrecked by the earthquake. The newspapers vigorously attacked the Government, and made all sorts of radi-

cal proposals: to stop turning into the Conversion Fund the gold assigned to it; to suspend the law requiring that costom duties be paid in gold; to raise the custom duties on all imports except articles of prime necessity; to take from Europe the Conversion Fund and to lend it to the local banks, etc. This agitation of the press is mentioned here because it is one of the great dangers in the Latin American Republics as far as monetary matters are concerned. The public there is too easily excited and is sometimes ready to see the beginning of the end of the world in the failure of a couple of banks of quite secondary importance. A "public opinion" is created in a moment, and if the persons at the helm of affairs have reasons to be inclined to follow it, they can easily let themselves be forced to take steps which they would probably never venture to propose on their own responsibility.

This is what practically happened, at least to a certain extent, in this instance. The Presidential message explained that the general financial situation was satisfactory; that eleven millions were spent in connection with the earthquake, and that it was proposed to spend ten more millions for the equipment of the railroads; that the economic situation of the country was "taut" (tirante), and that this tension and the depreciation of the paper money created considerable difficulties for most of the citizens. At the same time the Minister of the Interior informed the Congress that the Conversion Fund was expected to reach in December the high mark of $75.000.000 gold.

As usual, several projects were presented to the Chambers embodying the well known features of South American finance, among them a Caja de Emision which would take charge of the

issue of banknotes. Meanwhile the rate of exchange went always down (on December 7, i.e. after the publication of the law of which we are going to speak presently, it reached the minimum of 8 3/I6 d.), and finally the law of August 27,I907, was adopted which made the following provisions: to issue within thirty days thirty million pesos in banknotes, and to convert this sum into bonds of the Caja de Credito Hipotecario at a price not above par; to stop sending abroad the funds assigned for the conversion of paper money as long as the rate of exchange is below I7d.; to contract a loan abroad for a sum not exceeding L 4.500.000 actual, at 5% maximum interest and I½% cumulative amortisation, destined exclusively for the guarantee of paper money, and a further loan of L 3.000.000 on the same general conditions for various public works in the country;to create a Caja de Credito Hipotecario for loans on real estate, and a Caja de Credito Salitrero for loans on salpetre-bearing properties, both institutions to issue gold bonds.

We see thus that fromI90I to I908 the banknotes circulation was increased from $50.000.000 to $II0.000.000, and that finally even the strict provisions of former laws with regard to the formation of a Conversion Fund have been dispensed with. During the same time there were discovered in the country vast new sources of national wealth, but the economic situation was still certainly worse in I908 than it had been in I904. The prospects of a war have been steadily becoming less threatening, but military expenses have not decreased, and budgetary deficits, as well as deficits in the administration of railroads, have become chronic. This is the regular picture of a new country,

richly endowed by nature, ~~country~~ which is as yet in a stage of transition, and has not yet worked out an economic and financial system adapted to the requirements of its national life. It must not, however, be forgotten that Chile is in some respects in a peculiarly advantageous situation as far as its monetary system is concerned: it has a large Conversion Fund in gold; it has a fairly good banking system without the banks being allowed to issue banknotes; above all, it has a natural monopoly of saltpetre, a product for which there is a good demand on the part of the richest countries in the world, which are thus ready to supply Chile with gold in exchange for this important factor in the development of chemical industries and agriculture. What the country wants more than anything else is a good, honest, and efficient administration, and some guarantee that it will be dragged neither into a war, nor into a new speculation of inflation. Given these conditions, there is no reason why Chile should not be able to build up a monetary system at least as good as that of Oriental Uruguay.

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ARGENTINA.

The revolution of July 1890 was practically the end of the old regime in Argentine. What may be called the first constructive period ended. The days of political gunplay were now over, and a new system of national life began to grow up on the débris of the old system. The first days of the new period were extremely hard. "The pendulum of the life of the great commercial and economic mechanism stopped. There was no money to conceal, neither credit nor confidence. Nobody bought, and nobody could sell even at a low price. There was no work, and the horrors of reality were made worse by the fantastic creations of imaginations weakened by fear" (Jose A.Terry, Contribución, p.29.). But, happily for the country, "it had a God of its own" (ib. p.30), and gradually the situation became less and less terrible, so that by 1894 the Government was able to turn from the immediate present to the future, and lay down something like a program for the second stage of the economic evolution of the country. This year will be the starting point for our study of the monetary situation in the Argentine Republic.

In 1894 the population of the Republic was only 4.5mills., or 1.6 inhabitants per square kilometer, but the economic development of the country had grown considerably even during the preceding turbulent decade: the cultivated area increased 300%, horned cattle 57%, production of sugar 200%, production of wine 127%, etc. During the same period more than 10.000 kilometers of new railroads were put into operation, and freight traffic increased from 4.14 to 6.36 mills. tons. Nevertheless, the country had an enormous debt, an inconvertible currency, and a very

poor credit, which showed that if the economic development of the country was healthy, the same could not be said of its financial system. This is what the Executive had to say to the Congress (Report for I894, p.I0) about the inconversion of I885: "The causes that brought on the inconversion in I885 are well known; they, at the time,operated efficiently and they have continued to do so during the last eight years, entangled as they have been in the network of confusion in facts and ideas that constitutes the history of the economic crisis that still incumbers this country. The causes were: The deficits or unevenness of the budgets; The immoderate increase of the Consolidated and Floating Debts; The inequality of our Commercial Balance: The pressing demands made by Foreign Capital; The want of stability in our political action."

The following table is compiled to show the relative weight of the above mentioned factors:

From	I880 to I884 mills.	I885 to I894 pesos.
Deficits	79.5	I74.8
Increase of consolidated debt	28.I #	356.0
Balance of foreign trade	-32.0	-I53.0 ##

The most significant figures in these tables are probably those which refer to the balance of trade. Only a country like France, Italy, or England can afford to have a negative balance of trade, because in the case of Italy the money spent in it by foreign tourists offsets the loss in the balance of trade as

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#From I882 to I884. ## From I885 to I892.

shown by the movement of merchandize across the frontier. In Great Britain the same is done by the returns of the world-wide maritime transportation trade, and enormous investments of British capital abroad, while France helps out its general balance both by what foreigners spend in the country, and what French investments draw from abroad. Argentine possessed none of these sources of revenue, and had to fill up the gaps made by unfavourable balances by loans and by attracting foreign capital into the country for various investments (in 1894 about a billion pesos were invested in Argentine).

The above figures show not only the causes which brought about the inconversion of 1885, but also the fact that the same causes were at least as much, if not more, active in 1894 as they were ten years before. There were, moreover, two more causes which helped the currency to remain inconvertible, and these were: the banking situation, and the state of the currency itself.

The banks were governed by the law of November 3, 1887, known as the Guaranteed National Banks Act. The foundation of banks was declared free to all, and the banks were authorised to issue up to 90% of their effective capital in banknotes guaranteed by State securities. The mechanism of the issue was simple: the National Government issued securities at 4½% which the banks bought at 85% (in gold), and exchanged them at the Caja de Conversion for 100% in inconvertible banknotes. Here is what the Executive of the Republic had to say about it after six years of the working of the Act (Report for 1894, p.18):

"The Guaranteed National Banks Act proved the direct and

crowning cause of the outburst of the crisis; the application of the Act hastened its development, and then came the revulsion of I890 and I89I coupled with the July revolution and the failure of the Official and some of the Guaranteed Banks.

The Act, which at the outset was endorsed by the public, comprised, at the same time, vital drawbacks that tended fatally to the tight grasp of banking officialism throughout the Republic and to the establishment of air-built banks, a creation of the Governments of the Provinces, with a loaned capital and warranted by gold securities issued by the Federal Government.

Yes, the Act was at cross purposes with the interests of the country:

Ist Because its basis consisted in the creation of public funds in gold, to be issued by the General Government in the very midst of inconversion;

2nd Because the gold that those Public Funds ought to produce in some cases, in the form of loans guaranteed by the funds themselves, was at the disposal of the General Government, when a crisis was betraying itself, and when everything tended to show that the gold in question could not be appropriated to the ends specified by the Act;

3rd Because it tended towards the issue of an inconvertible paper currency with the guarantee of a Government which was on the road to insolvency;

4th Because it tended towards the establishment of Official Banks in inadequate commercial centres, inasmuch as the greater part of the provinces are not suited to the establishment of banks with a large capital, and inasmuch as private capital would not be invested in any scheme of the kind, by reason of the unimportance of the market in question. So that the

Guaranteed Banks Act induced perforce the multiplication of Official Provincial Government Banks, that had no means of revenue of their own nor any appropriate markets wherewith to sustain their establishments. Such was the practical result of such an enactment".

During the great crisis of I89I, on the ruins of the two graet official banks (the Provincial Bank and the National Bank) was created the Bank of the Argentine Nation. According to its Statutes, it was a shareholders' bank, with a capital of fifty million dollars currency, but the situation was so desperate that the Bank did not wait for the capital to be subscribed, and began to work at once with a provisional Board of Directors appointed by the Executive, and fifty million dollars of capital borrowed from the Caja de Conversion. This Bank which later became, and continues to be, one of the most important and efficient factors in the economic progress of the country, could, however, do but little during the first years of its existence.

The state of the currency was partly shown above. The total issue in I894 was only $296.693.628, a sum in itself rather large for a country with a comparatively ~~not~~ sparce poputation, and an industry in the stage of producing mainly raw products. It appears, however, to be absolutely excessive when we consider that part of it was guaranteed by real estate, part was not guaranteed at all, and $ I39.99I.529, the best guaranteed part of the circulation, had behind them only public funds. The currency was thus not only inconvertible: it actually had no metallic foundation at all.

The Caja de Conversion, created in October I890, was intended to take charge of the issues and conversion of national cur-

rency, and to look after the due application of monetary legislation. We do not find, however, any proofs thst its activity during the first years of its existence had any influence on the course of events on the money market.

The program for the future was expressed by the executive in I894 in the following words (Report for I894, p.I7):

"The Executive holds agio to be a grave, a very grave evil for the country, owing to the violent oscillations it gives rise to, but it also holds it to be a peculiarity of all inconversion and of the nervous state of a people that has been uniformly threatened with political turmoil. Agio is not to be assailed by a set of regulations nor by prohibitory measures. On the contrary, free action, as it exists at present, and the security that the Government will not become a Stock Exchange speculator are means of defence against stock-jobbing manoeuvres. Agio is nurtured by our political commotions and commercial invalidation. Political quiet, and commercial vitality and industry will put our paper on a sounder footing by consequence of fewer fluctuations. The formula: "to consume a great deal and to produce still more", if put in practice, will give rise to a greater international metallic animation in our markets; and a permanent and active play of a supply and demand for specie, will to a certain degree curb agio".

The next pages will show in how far this very sound program was carried out in actual practice.

The administration of President Uriburu which was called upon to act upon this program was fortunate enough to find the country in a state of comparative quiet. The recent defeat of

the revolutionary party, the revulsion of feelings after the feverish exsitement of the preceding years, the poverty of the people, and the possibility of international complications made the internal government of the country comparatively easy. This was taken advantage of to solve the most important financial problems, viz.those of the provincial debts, Guaranteed Banks, and railroad guarantees.

Whether the provinces had a right to contract loans seems to be a debatable question in Argentine litterature, but in I895 there were on the market such loans to an amount of I37. 26I.850 gold pesos, distributed among the provinces as follows:

	Gold pesos:
Mendoza...	5.888.596
San Luis...	888.208
Catamarca...	3.093.432
San Juan	2.I69.398
Corrientes...	6.4II.290
Buenos Aires...	52.789.296
Tucumán ...	2.962.008
Cordoba....	23.8I3.722
Santa Fé....	2I.956.603
Entre Rios...	I7.289.306

None of these provinces was able to pay the interest and amortisation of these bonds, and the disrepute into which the provincial securities have fallen, very injuriously affected the national credit, because European bondholders and even stock exchanges made no distinction between provincial and national bonds;but spoke of them all as Argentine securities, and

viewed them in the same light. It was therefore in order to raise the external credit of the country that the Government sought to regularise the position of provincial securities. The railways were guaranteed by the State, and called for heavy payments on the guarantees. The paper-money was inconvertible, and had all the drawbacks of such a currency. For all this a remedy had to be found, and the Government went to work.

The law of January 10,1895, the agreement between the National Government and the provinces of Rios, Corrientes, Santa Fé, Buenos Aires, and Cordoba, and the laws based on these acts resulted in the following important measures: 1)the National Government undertook to take charge of the provincial external debts, and to issue its bonds, on equal conditions as to interest and amortisation, in exchange for the provincial securities; 2) the Guaranteed Banks were abolished, and the National Government took charge of, and responsibility for, the banknotes issued by them. Only part of the provincial securities were placed abroad, but, according to Mr. Jose A. Terry (Contribucion, p.31) these measures increased the foreign indebtedness of the nation by more than one hundred million pesos.

It was no easy task to live up to such obligations for a government which was just emerging from a hard political and economic crisis, and had large deficits in its ordinary budgets, but it was made still harder by the fact that most of the new obligations involved large payments abroad, i.e. payments in gold, and to effect this, with a rate of exchange above 400% (in June 1894 only 464%) was by no means easy, and already the preceding administration of Saenz Peña tried to meet the payments on the battleships and military supplies ordered abroad

by means of foreign loans.

This was the real origin of the project of consolidation of the debt presented to the Houses of Congress in 1895. According to this project 380.000.000 pesos gold were to be issued in bonds at 4% interest and 1% amortisation, to be used as follows: 230.000.000 for the conversion of the outstanding national debt of 222.000.000 pesos, 35.000.000 for the payments on railway guarantees, and 85.000.000 to meet the obligations in connection with the provincial debt. This project was accepted by the Chamber of Deputies, but rejected by the Senate (José A. Terry makes a curious mistake - for a former Minister of Finance- in saying that the project was rejected by the Chamber of Deputies: Contribución, p. 32. - Dr. Avellaneda's (Crédito Público, t. III, p.204 ff.) detailed statement of the parliamentary history of the project was followed here). The rejection of the project, and the simultaneous growth of the military expenditure forced the Government to have recourse to the oldest, but in a young country certainly not the best, method of raising money - increased taxation: the custom duties on imported goods were increased by a horizontal raise of 10%, and the tax on alcohol was gradually raised from$0.15 to $1 per liter.

In general, however, the situation in 1896 was somewhat better than in the two preceding years. There was a balance of 4.58 mill. pesos gold in favour of the country in its foreign trade, while gold was quoted at 282.8% to 317%; at the same time the issues of the Caja de Conversion rose to 295.165.957 national pesos,a sum far superior to what was really required by the commerce of the country. During the years 1896 and 1897 the financial administration was certainly progressing in its

methods of work. It is true that, owing to heavy military expenditure, the budgets were still closed with deficits (52 mills. in 1896, and 40 mills. in 1897), but the deficits were diminishing, enough money was sent to London to meet the payments on the foreign indebtedness, and the credit of the country was rising — which was considered to be a very important fact since it facilitated the inflow of foreign investments into the country and the development of its wonderful natural resources.

In short, the administration of Uriburu did for Argentine what the administration of Campo Salles did some time later for Brazil: it created conditions which allowed the placing of the finances of the country on a solid basis, cleared away such obstructions as the Guaranteed Banks and provincial indebtedness abroad, and left to its successor, the administration of Roca, the task of finally doing away with the consequences of the mistakes and crimes of the past.

One of the first acts of the new administration was to regulate the relations created by the acceptance of the responsibility for the railway and provincial indebtedness by the Government during the preceding administration. This was done only partly, since the Government converted the provincial securities into its consolidated bonds, and increased thereby the national indebtedness by about 150.000.000 pesos, but most of the provinces did nothing towards paying their quota of the new burden to the National Government. Nevertheless, the new arrangement raised the national credit, and thus definitely removed one of the most unpleasant consequences of the old mistakes dating as far back as the time of the "reforms" of 1885.

Meanwhile, as was stated above, and is shown in the follow-

ing table, the economic situation of the country was becoming better and better, and the rate of exchange was rising with a rapidity which was becoming dangerous. To understand this one must bear in mind that a rapid rise of the rate of exchange may be just as detrimental to the business of a country as a rapid fall. The relations between the cost of production and the selling price are materially affected thereby, especially in the export trade, and an absence of equilibrium is produced between trades working for the local market and those working for export. When the depreciation or appreciation of money take place gradually, the commercial relations of the country have time to adjust themselves to the variation of the monetary unit but when the price of the unit of circulation changes 25% in four months (the rate of exchange was 278% in August 1898, and rose to 206% in December of the same year), the change is too rapid to allow a natural adjustment, and the producer, especially the farmer, must suffer. We have seen above, how curiously the question was solved in Brazil by artificially keeping the rate of exchange below its natural level. A more patriotic way was found in Argentine.

At the beginning of the sessions of the Congress the President stated that the nation must some day reestablish the specie circulation, or have recourse to a conversion, and that the decision must not be over-hasty. He recommended therefore to begin at once the consideration of the rate of conversion and its general principles.

Acting on this suggestion, the Minister of Finance, Dr. José M. Rosa, presented in August 1899 to the Congress four projects of a Law of Conversion, one of which, after conside-

rable alterations, became finally the Law of I899. According to Mr. Avellaneda (Crédito Público, t. III, p. 284), the program of the Government was as follows: I) to select a rate for the future conversion, and fix the real value of the peso for the year I899; 2) to form a metallic fund which would guarantee and make generally possible this operation; 3) to maintain the conversion through an office in the Caja de Conversion which would operate as an automatic regulator, exchanging paper for gold and vice versa, at the fixed rate of 44 centavos gold for a paper peso; 4) to transact the international exchanges through the Bank of the Argentine Nation; 5) to diminish the expenses of the administration by strict economy, to make the revenue the fundamental law of expenses, etc.

As to the rate of exchange of the paper peso, it was found that the average quotation for gold during the decade I889-I898 was 303%, and therefore it was expected that a rate of exchange in the neighbourhood of this figure would more or less equally protect the interests of persons having contracted loans, bought lands, or become parties to wage and business contracts during that period (it may be pointed out, by the way, that a simple average quotation is a rather inexact way of finding the true mean value, and the application of the method of least squares would probably give a result considerably nearer the true mark). For the last year, however, i.e. August I898 to August I899, it was found that the average quotation was about 239%, while the rate of exchange which existed when the I28.2 mills. of the internal debt were issued was only 306%. Out of all this mass of rates of exchange, some justified by actual

facts, others by historical considerations or the magic of statistics, a rate of 44 centavos gold per paper peso, equivalent to 227.27%, was chosen, and the Law of 1899, No. 3871, passed. This law is so important that we give its provisions in detail.

The first article stated that the Nation will convert the entire actual fiduciary issue of the banknotes having a legal circulation into national gold money, at the rate of one peso in national legal currency for forty four centavos of a national gold peso. Further the law stated that the Executive Power will announce the time and method of the execution of the provisions of the previous article. The Executive Power will proceed to form a metallic reserve, to be known as Conversion Fund, destined to serve exclusively as a guarantee for the conversion of the paper currency. This fund will be formed by: 1) additional 5% on the import duties; 2) the assets of the Bank of the Nation; 3) the profits of this Bank; 4) the sums obtained by the sale of the Andina and Toma railroads; 5) special sums assigned to this fund annually by the respective budgets. These sums will be kept in the Bank of the Argentine Nation, and will be used by the Bank for the draft business on foreign countries, while the Caja de Conversion will keep a special account of the banknotes issued in compliance with this law, and the gold received in exchange for them. In no case will the gold received by the Caja de Conversion under the provisions of this law be used for any purpose other than exchange of banknotes at the rate fixed by the law, and the members of the Caja de Conversion will be personally responsible for any infringements of this provision.

Facts have shown since the publication of the law that the

rate of exchange of 44 centavos, though not an ideal one, was at least near enough the actual conditions to cause to the country no extra troubles. An exchange at par could not be then adopted, and leaving the peso to the tender mercies of the money exchange speculators would hardly help to bring nearer the time of resuming payments in gold at par. Whether a government of a country has theoretically a sovereign right to change the value in gold of its paper monetary unit is a debatable question, but there can be scarcely any doubt as to the practical advisability of paying 44 cents on a dollar rather than nothing at all. The following table may show that the country needed such a law, was certainly on the way to prosperity, but that the general situation was still such as to require utmost care in not overtaxing the economic ressources of the population: exports are in favour ~~for~~ of the country, but the margin is as yet very small.

Year	Foreign Trade		Gold		Area of cultivation hectares	Population	Immigration	Year
	Imports ← mills. pesos	Exports	Imports	Exports gold →				
1900	113	155	10	3	7.000.000	4.700.000	↑	1900
1901	114	168	2	2				1901
1902	103	180	9	3			800.000	1902
1903	131	221	26	1				1903
1904	187	264	25	2				1904
1905	205	323	32	1				1905
1906	270	292	18	2			↓	1906
1907	269	319			14.000.000	6.000.000		1907
Total	1.392	1.822	122	14				Total

It must be distinctly undestood that the object of the law of I899 was not a conversion, but a preparation for a conversion. In I899 there were 286.77I.690 paper pesos in circulation. The law reduced them to I26.I79.543 pesos gold,but it did not convert them into gold simply because at the time of the promulgation of the law the Caja de Conversion did not yet possess the necessary gold fund. The problem was now to obtain it, and that was not easy. In I900 the external debt was increased by 2.672.000 pesos through the termination of the settlement of the provincial debt. In I90I began again, under a previous agreement with the Comité Rothschild, the amortisation of the external debts, and there were, besides, Treasury drafts for fourteen million pesos gold to be paid. At the same time there were many things which tended to make the situation particularly difficult: the plague in Argentine stopped the export of cattle to Europe and Brazil; the events in South Africa practically close the British market for South American securities, while the political complications on the Chilean frontier necessitated an increased military expenditure, and at the same time created a feeling of mistrust on the home market.

The Government again tried to have a consolidation of the external and internal debts adopted by the Congress, and succeeded in the Senate, but the pressure of public opinion prevented its passage i n the Chamber of Deputies: this was done notwithstanding the fact that, as the budget Commission of the Chamber of Deputies had found, the floating debt at the end of I90I reached the huge sum of 36.9I7.000 pesos gold. The Government then broke the bounds created by the law of I899, and turned

the additional 5% of custom duties, which ought to have gone to the gold fund of the Caja de Conversion, to the payment of the floating debt. Happily for the country, immediately after this the exports began to increase, there appeared a pronounced tendency towards appreciation of the paper money, and the act which at another time might have had the gravest consequences passed quite unnoticed. Shortly after this, however, the rumors of a possibility of a war with Chile became again very insistent, and it was even currently repeated that the Government decided to make new issues of paper money in order to meet the growing expenses of the armed peace, expenses which had already reached the huge amount of 80.000.000 pesos gold, and increased still more when the Government ordered in Europe two new battleships, to keep even with a similar order of the Chilean Government. We have seen above how Chile was straining its last resources at the same time to protect itself against a possible invasion of the Argentine army, and the writer cannot help thinking that it would be of considerable interest to show, what interests stirred each country against the other, and made both spend far more than they could afford, in ordering battleships and war materials from English firms in Great Britain and Italy....

The Government in 1902 had to face a very serious situation. The Caja de Conversion was practically empty: the 4.500.000 pesos gold which it had in 1900 were reduced to 2843 pesos, while the saldo of the external debt was about 375.000.000 pesos gold. Nevertheless, the Government was willing to rely on the economic resources of the country to bring a remedy to the situation, and made the following three declarations as to its economic program: it intended to I) energetically resist all attempts

to make new issues of currency; 2) oppose all plans tending to a suspension of payments in connection with the service of the public debt; 3) emancipate the country from the tutelage of the European bankers whose influence was very much resented by the public opinion. To start carrying this program out in practice was given to the administration of Quintana (I904-6).

The peace with Chile removed the constant fear of a war as well as the accompanying drain on the Public Exchequer, and left the country free to devote itself to the development of its vast productive forces. During the year I905 the exports reached the amount of 527.998.265 pesos gold (this sum seems to be excessive; it is given by Avellaneda, Crédito Público, t. III, p.352; Zegers - Estudios Económicos, p. I35 - gives 205.000.000 pesos gold as the value of the exports for the same year), the external debt was reduced to 329.I mills. (at the beginning of the year it was 370.7 mills.), and the budget was freed from unnecessary expenses to such an extent that an unexpected surplus took place of the customary deficits. Still more important was the fact that by March I906 there was a fund of over thirteen million pesos gold in the Caja de Conversion, and that the Government was bent upon providing an effective guarantee for the paper circulation, and placing the funds of the Caja beyond the possibility of being used for defraying ordinary expenses. The Government proposed even to create a new unit of currency, an "argentino", equivalent to 44 centavos, or the gold value of a paper peso, but it was not carried into effect.

The materials available do not yet admit of a detailed treatment of the last four years. But we find the following information in Mr. Zegers' book "Estudios Económicos (p.I36):

Paper money in circulation:	in millons pesos:
I892 - I908.....	286

Caja de Conversion:

Years:	Gold deposits: pesos of 48d.	paper issues: pesos of 44 ct
I904...	50	II5
I905...	90	205
I907.. June....	I25	284
December...	I02	232

while Dr. Avellaneda states that in I908 there were deposited in the Caja de Conversion I20.008.000 pesos gold, against a circulation of 286.77I.690 pesos paper, or each paper peso was fully covered by 44 centavos gold according to the law of I899.

We shall not go into a discussion of the question of stability as regards the Argentine currency, because, in the first place, we would practically have to repeat a large part of what was said in the chapters on Brazil and Uruguay about the vast resources of the country and not always sufficiently adequate methods of government. In the second place, it is clear from what we have said above that the dangers for the Argentine currency lurk now not in the possibility of failure of production, or in banking abuses, but mainly in causes lying beyond the limits of the present investigation, e.g. international complications, internal revolutions etc.

Ὑπέρμορα ἄλγε', in Homeric terminology, seems as yet to be the greatest danger of the currencies of practically all South American Republics, countries richly blessed by their Creator, but for ages most cruelly mistreated by man.

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